Slovenská sporiteľňa, a.s.
Member of Erste Group
Annual report 2021

SLOVENSKÁ
sporiteľňa

Table of Contents

Table of Contents 2

The Company at a Glance 4

Financial Highlights 6

Statement by the Chairman of the Board of Directors and CEO 8

Board of Directors' Summary of 2021 11

Corporate Social Responsibility 14

- Social issues 15
- Environment 16
- Civil society 16
- Culture and sport 16

Customer Care 17

- Putting the customer first 18
- Retail products and services 18
- Asset management for retail 19
- Corporate banking 20

Responsibility to employees 22

- Employees are key to success 23
- Diversity is not just a word 23

Management Report on Bank's Activities in 2021 25

- The Economy in 2021 26
- Financial Results 27
- Risk management 27
- Objectives for 2022 28
- Forecast economic and financial situation 29

Summary Corporate Governance Report 30

- Code of corporate governance 31
- Relevant information regarding management and organisation of the company 31
- Internal control and risk management 32
- Information on the composition and activities of the company's bodies and their committees 33
- Shareholder rights, key functions of ownership and share capital structure 40
- Stakeholders' rights, information disclosure and transparency 41

Statement of Responsible Persons 42

Supervisory Board Report 44

Members of the Board of Directors and Supervisory Board of Slovenská sporiteľňa, a.s. 47

Annexes 50

The Company at a Glance

Basic information

Registered office: Tomášikova 48, 832 37 Bratislava, Slovak Republic
Registered: Commercial Register administered by District Court Bratislava I, section: Sa, entry: 601/B
Corp. ID (IČO): 00151653
Legal form: joint-stock company
Scope of business: universal bank

Bank profile

Slovenská sporiteľňa was established in 1825 as the first savings bank in Slovakia. Today, the company is the largest commercial bank in Slovakia, serving approximately 2.1 million clients. It has long held a leading position in total assets, household loans, client deposits, numbers of branches and ATMs. The Bank offers its comprehensive services at 200 branches for retail clients and 8 regional commercial centres in Slovakia.

In 2001, Slovenská sporiteľňa became a member of Erste Group, which was Austria's first savings bank, founded in 1819. Since 1997 the group has developed into one of the largest banking groups focussing on retail and corporate clients in Central and Eastern Europe. It consists of Erste Group Bank AG (the parent company) and its subsidiaries, which Erste Group Bank AG consolidates through direct or indirect shareholdings. At present, the Erste Group has around 45 000 employees serving more than 16 million clients at over 2 100 branches in seven countries: Austria, Czech Republic, Slovak Republic, Romania, Hungary, Croatia and Serbia).

Shareholder structure of Slovenská sporiteľňa as at 31/12/2021

Erste Group Bank AG
Registered office: Am Belvedere 1, Vienna 1100, Austria

Share in the registered capital and voting rights:	100.00%

Significant direct holdings of the Bank

• LANED, a.s.	100.00%
• SLSP Social Finance, s.r.o.	60.40%
• Procurement Services SK, s.r.o.	51.00%
• Slovak Banking Credit Bureau, s.r.o.	33.33%
• Holding Card Service, s.r.o., Česká republika	21.78%
• Prvá stavebná sporiteľňa, a. s.	9.98%[1]

Ratings as at 31/12/2021

Moody's

Long-term rating / Outlook	A2 / stable
Short-term rating	P-1
Basic credit rating	baa2
Adjusted credit rating	baa1
Counterparty risk (long-term/short-term)	A1/P-1
Covered bonds rating	Aaa

This annual report has been prepared in accordance with Act no. 431/2002 Coll. on accounting as amended (the "Accounting Act"), Act no. 423/2015 Coll. on statutory audit as amended, and Act no. 566/2001 Coll. on securities and investment services and on the amendment of certain laws as amended (the "Securities Act") as Slovenská sporiteľňa is a securities dealer. This Annual Report substitutes the annual financial report as defined in Act no. 429/2002 Coll. on the stock exchange as amended (the "Stock Exchange Act") as Slovenská sporiteľňa is an issuer of debt securities admitted to trading on a regulated market. Information included in the section "Annexes" contains all information required under § 77(2)(b) of the Securities Act, except for the list of companies consolidated in the financial statements in accordance with § 77(2)(b)(1), which is included in the chapter Summary Corporate Governance Report. Information for the purposes of § 77(2)(b)(3) of the Securities Act is given in note 15 on the financial statements and information for the purposes of § 77(2)(i) and (j) is given in the Consolidated Statement of Profit or Loss, in the section "Annexes". This Annual Report includes a statement in accordance with § 34(2)(c) of the Stock Exchange Act and the internet address at which the Bank's parent company Erste Group Bank AG has published its annual report for 2021 as required by § 34(3) of the Stock Exchange Act. This annual report also includes, under note 35 on the consolidated financial statements in the section "Annexes", a proposal for the distribution of profit in accordance with § 20(1)(f) of the Act on Accounting and § 77(2)(c) of the Securities Act.

Method of publication of the annual report

Slovenská sporiteľňa files its annual report, including its individual and consolidated financial statements and the auditor's reports, in the register of financial statements in accordance with the provisions of Act no. 431/2002 Coll. on accounting, as amended. It publishes the document on its website and a notice of publication is placed in the Hospodárske noviny newspaper.

Contact persons for the compilation of the Annual Report

Mária Valachyová, chief economist
valachyova.maria@slsp.sk

Matej Bašták, investor relations
bastak.matej@slsp.sk

Martin Reháček, reporting
rehacek.martin@slsp.sk

Lenka Sporková, reporting
sporkova.lenka@slsp.sk

Marta Cesnaková, spokesperson
cesnakova.marta@slsp.sk

Contacts

Slovenská sporiteľňa, a.s.
Tomášikova 48
832 37 Bratislava

Telephone: +421 2 4862 1111
Fax: +421 2 5826 8670
Client Centre: 0850 111 888

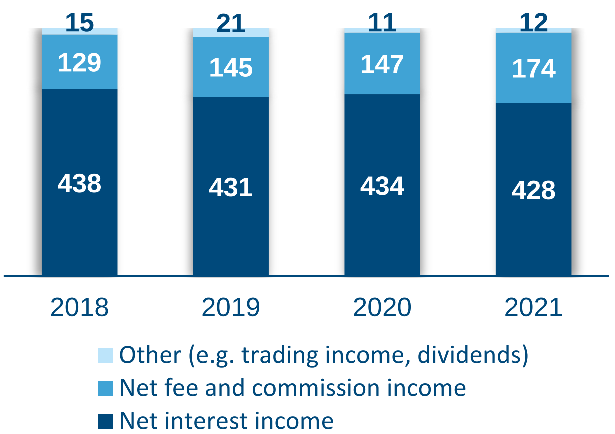
E-mail: info@slsp.sk; press@slsp.sk
Website: www.slsp.sk
www.erstegroup.com/en/investors/reports/financial-reports

[1] Under a shareholder agreement with Erste Group Bank AG, Slovenská sporiteľňa exercises a 35.00% share of voting rights in Prvá stavebná sporiteľňa, a.s. (Erste Group Bank AG has a 25.02% shareholding in Prvá stavebná sporiteľňa, a.s.). Ownership interests in registered capital and voting rights are equal in other companies.

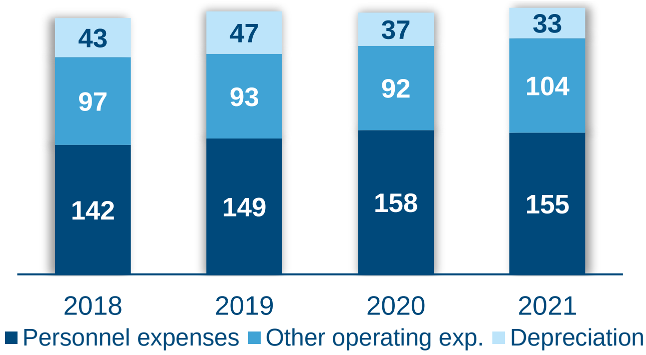
Financial Highlights

Consolidated results	31 Dec 2017	31 Dec 2018	31 Dec 2019	31 Dec 2020	31 Dec 2021
Prepared in accordance with the International Financial Reporting Standards (IFRS)	(in EUR million)	(in EUR million)	(in EUR million)	(in EUR million)	(in EUR million)
Total assets	16,343	17,443	18,619	20,706	23,154
Loans and advances to banks	178	48	0	0	50
Loans and advances to customers (net)	11,720	13,008	14,113	14,902	15,898
Investments	3,745	3,721	3,743	3,817	4,028
Customer deposits	12,478	13,653	14,392	14,869	15,973
Equity	1,536	1,513	1,620	1,792	2,051
Net profit	164	184	180	108	228
Selected ratios	(in %)	(in %)	(in %)	(in %)	(in %)
Return on equity*	10.8	12.6	11.6	6.2	12.2
Return on assets*	1.1	1.1	1.0	0.6	1.0
Cost income ratio	49.7	48.3	48.3	48.5	47.6
Net interest margin*	3.0	2.7	2.5	2.4	2.2
Net loans to deposits ratio	93.9	95.3	98.1	100.2	99.5
Total capital adequacy	18.7	18.1	17.3	18.7	20.5
Tier 1 capital ratio	17.8	17.1	16.4	18.0	19.8
Other figures					
Number of employees	4,250	4,105	4,070	3,770	3,644
Number of branches	271	250	233	203	200
Number of ATMs	805	801	754	747	750

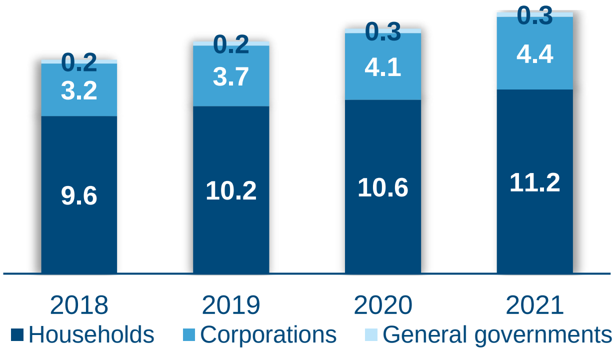
Operating income (in EUR million)



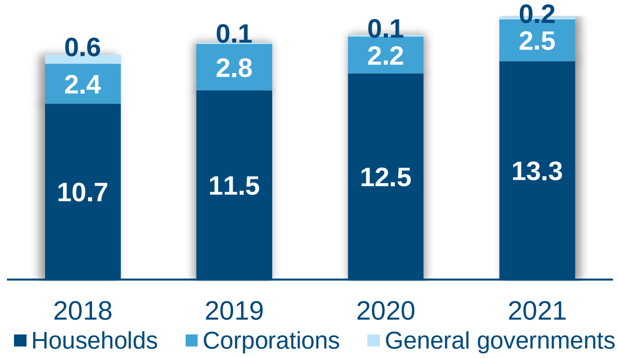
Operating expenses (in EUR million)



Loans and advances to customers (net, in EUR billion)



Customer deposits (in EUR billion)



Statement by the Chairman of the Board of Directors and CEO

Peter Krutil
Chairman of the Board of Directors and CEO

We have had another very interesting year, although as a banker I would have preferred it to be boring. In banking, as in politics, boredom is better, more welcome. We are living in times that would be interesting even without the pandemic. A year ago, in this place, I was highly optimistic because I saw something that could return life to normal – the vaccine. The vaccine did create some breathing space for the economy at least.

The benefit of this can be seen in our financial statements, which show a record-breaking performance. However, this picture is distorted if we consider nothing but the absolute profit. The distortion is further compounded by considering year-on-year growth alone. A more realistic picture emerges if we take a longer view and asses the years 2020 and 2021 together. In this perspective, we see that the banking sector's profitability is just returning to normal levels. I will talk in detail about our results in a moment. First, I want to talk about something more important because the world is changing, and banking is changing with it even though its core business remains the same – helping clients to prosper.

If I had to sum up 2021 in one word, it would be responsibility. Responsibility to society is literally part of the identity of Slovenská sporiteľňa. This year we felt that we should move to a higher level. We therefore developed a new communications concept with a clear message: "The future is yours." As a banking leader with nearly 200 years of history, we are closely involved in the development of our country and its people.

We see Slovakia in the future as a modern, successful, and sustainable country. With a growing economy and low unemployment. Where the business environment, education and health care are improving. With a financially literate younger generation and a sustainable pension system. This is why we have publicly committed ourselves to achieve three goals by 2025: financial literacy for 200,000 young people thanks to the FinQ programme, decent housing for 1,000 socially disadvantaged people to give them a new start in life, and 300,000 new trees. I believe that these steps will help our country create a future that we can all look forward to.

Another piece of good news is that we are not the only people interested in responsibility, there are many like us. That is why we and our colleagues at Asset Management decided to launch the first socially responsible fund in Slovakia. Humanity is confronted by huge challenges, fundamental global changes, and the rise of new megatrends. There is growing interest in sustainability, digitalisation and electromobility. At Slovenská sporiteľňa, we want to help people to benefit from these trends and achieve both financial and social returns on their investment. As a bank, we want success not only for ourselves and we want to make a difference. Now we believe we have found a great way to do it.

Responsibility to clients is also important to us and, perhaps surprisingly, I see a key role here for digitalisation. Technology is changing and accelerating people's lives, and as a digital leader, it is not enough to keep pace; we must get in front of it. During 2021, the number of users of George surpassed one million, of whom over 800,000 used the mobile app. These are amazing numbers. We became the first bank to offer share trading on a phone. Other innovations include using the mobile app to refinance loans and pay extraordinary instalments. We are gradually adding more products and services. Our aim is for clients to manage as much as possible through self-service online. This benefits both us and them. They don't have to go anywhere, and services are available 24 hours a day. This frees up our advisors to provide real advice, which is their largest added value. The result is that 700,000 of our clients are now better prepared for the future thanks to our Financial Plan.

At the turn of the year, a major topic was instant payments. These enable people to send money from one bank to another in just a few seconds rather than in one or two days. This useful innovation has taken some time to develop because it required no small investment in system changes. It is interesting that the only banks to join us in this were two traditional institutions, not those new, innovative banks that are 'cool' and move with the times. I am glad that as a leader we managed people's expectations and could provide instant payments as part of our current account package free of charge.

These are just a few examples of how Slovenská sporiteľňa is changing not just outwardly but also on the inside. A business that wants to grow and change needs to adapt continuously to developments. Agile ways of work are no longer innovations; they are inevitable. From my point of view, it is crucial to learn to trust people and give them decision-making powers so they can react as fast as possible to events in the environment. It is not just more efficient; it wins over highly motivated individuals who value autonomy and empowerment.

One of the ways an innovative firm can stand out from the crowd is by taking a longer view than the profit or loss in the next few months or quarters. It may even think in decades. Firms like that should concentrate on how they can remain meaningful and provide added value for clients in 10-15 years. Another point about planning and time is that change must happen in good times as well as when the roof starts leaking.

I know that it is more usual to expect statements in the annual report to focus on the bottom line. This time, however, I thought it was important to explain how our bank sees the world. Regarding our financial performance, many people consider 2021 the true first year of the new decade, and I believe our performance in 2021 was truly first class. We were assisted by the economic recovery, positive developments in the labour market and government assistance for people affected by the pandemic. Provisioning had a big effect on our bottom line. When the pandemic began, we could not foresee how it would affect the economy, companies' profitability and unemployment. We therefore created risk provisions very prudently. As the year went by, it became evident that the situation was developing better than we had thought and some provisions could be dissolved.

The most important item for me is the operating profit, which we managed to increase despite strong pressure on interest rates. By expanding our product portfolio, we increased our income from commissions, we took advantage of TLTRO financing from the European Central Bank, and we also found ways to increase efficiency in banking operations which helped to keep our costs under control. I am also pleased by the continuing growth of our market share in loans to firms. Furthermore, Asset Management Slovenskej sporiteľne became number two in its market during the year. At the same time, record sales of mortgages in the last quarter proved that we are still a market leader in retail loans.

What can we expect this year? I hope there will be no black swan. If one turns up, it had better be a revolutionary discovery that has a positive impact on all humanity. What I would really like is a bit of boredom in banking. It would give us time to concentrate on our long-term goals. Being more than just a bank, being the best financial partner for life and business. Developing further as a digital and responsible leader. Being not just a successful bank but above all a thriving one.

For myself, I hope to be an inspiration. To keep my mind open, to give space to new people and ideas, and even though I am at the forefront of the firm, I would like to feel like I do not have to make every single decision myself. We sometimes have a hard time connecting leaders, but I believe that this is the way to build a bank capable of further growth, innovation and future transformation. It is the way to a future that I look forward to.

Board of Directors’ Summary of 2021

Pavel Cetkovský

Member of the Board of Directors and Deputy CEO responsible for the Finance Line and the Risk Management

In many ways, 2021 exceeded our expectations, particularly as regards the Bank's overall financial performance, which can be summed up in one word as excellent. Even though we benefited from the brisk recovery of the Slovak economy that ran for most of the year and reduced risk costs (loan loss provisions), we also saw gains from the continuing optimisation of our operations and the adaptation of the Bank's business model to new conditions. As examples, I would mention the automation of the lending process, streamlining of the financial planning process and, of course, the completion of the second stage of our unending quest to cut administration costs at the Bank.

None of us knows what 2022 will bring, but I believe that we are in excellent shape to cope with all challenges ahead and that Slovenská sporiteľňa will retain its place as leader in the Slovak banking market.

Norbert Hovančák

Member of the Board of Directors and Deputy CEO responsible for the Corporate Banking and Financial Markets Line

It would be at the very least odd to disregard the continuing global pandemic in assessing 2021. We cannot even predict how much longer we will have to continue fighting it. What we do know is that, as in the previous year, we have managed to maintain our pace, spirit, and dedication, both in work and personal life, in solving problems in extreme and unpredictable conditions. The greatest reward for our efforts was the confirmation of our position as leader in client satisfaction. This was no easy accomplishment. Our clients expect a lot from their financial services provider because they themselves are under great pressure in the current economic situation. I am proud that we did not fall short in their expectations and trust.

Corporate banking at Slovenská sporiteľňa again in 2021 proved its ambition to grow. Thanks to all our employees – from advisors to back-office staff – we were the largest provider of corporate loans. Without the courage to overcome obstacles that often seemed overwhelming, without the drive to go beyond our limits and without the dedication to continuous improvement, we would not have achieved our current growth in both volume and market share. Success is a motivation, but it also creates obligations. For myself, I am convinced that in 2022 we will have the necessary motivation to offer clients even better professional advice and quickly meet their needs with new products and services.

The pandemic demanded much faster expansion of digital channels. We are continuously improving our electronic banking service, B24, adding support for products and comprehensive solutions to keep up with the best corporate banking services. I think that in a time of many offline restrictions, B24 has made a significant contribution to the high level of customer satisfaction.

Every new year is a new beginning. We all hope for the pandemic restrictions to end in 2022. Although we still feel the significant impacts of the restrictions in world trade and we may often encounter local obstacles, I sense an appetite for a restart at Slovenská sporiteľňa and society at large. My wish is that we continue to strengthen the severely tested partnership between our Bank and clients so that we all contribute to a better, sustainable future for Slovakia.

Milan Hain

Member of the Board of Directors and Deputy CEO responsible for the IT and Banking Operations Line

We have behind us a difficult but very successful year. Covid severely tested our ability to adapt flexibly to emerging situations, but we came through with flying colours. I am especially proud that alongside many short-term tactical tasks, we continued our developments on the strategic level, the results of which may not be so outwardly apparent, but which are all the more important for the Bank's long-term development.

Agility naturally remained one of the Bank's key priorities in 2022. No less important was the high stability in services and client protection. We put a lot of work into these areas, a result of which was that, despite significant growth in digital service users (George now has more than 1.1 million clients) and an enormous rise in attempted fraud, we managed to keep up the pace of implementing at least ten massive changes a year while protecting our clients against various cyberattacks.

It is surely unnecessary for me to mention that the Bank's work depends heavily on cooperation with external organisations. At present, the vast majority of correspondence from the Retail Process Centre is sent electronically and we have even reached 100% for certain document types. Equally outstanding results have been achieved in the field of claim recovery and cooperation, where three quarters of processes are automated and more than 90% are paperless. We have built and put into operation a virtual mortgage centre that is unique in Slovakia and has provided higher volume of loans through the Partner Portal than we originally planned. The sharp reduction in paper statements not only saves costs but also the environment and thus contributes to our ESG commitments. We have made significant progress in providing for the absolute work mobility of employees (laptop / mobile / data), which is crucial for our success in this time of pandemic. Furthermore, we are gradually adopting cloud technologies.

In 2022, we will continue to seek a balance between the Bank's strategic and tactical objectives. The most vital strategic measures include continuing projects that provide both immediate benefits to our clients while also strengthening the Bank's real-time processing of transactions and data, which I see as a key element in our ambition to be the best partner for life and business.

Zdeněk Románek

Member of the Board of Directors and Deputy CEO responsible for the Retail Banking Line

Last year was a productive year in our journey to become the best possible financial partner for our clients in their business and private life. In a world where much had changed due to the coronavirus pandemic, it became clearer that our vision made sense and our results showed that we had chosen not just an ambitious strategy but the right one. We made giant steps forward in two key areas. Firstly, George became an even stronger and better digital banking solution, providing extra convenience for our clients every day. Secondly, we improved our ability to help each client in managing their finances – our advisors' tablets now offer even more ways to handle clients' life situations.

In 2022 we will continue investing in our vision to be the best advisor on financial matters for every single one of our clients. We also want to offer a pleasant daily banking experience in the George mobile app. It is therefore natural for us to continue the development of the George app and the possibilities for providing advice through tablets in our branches.

Corporate Social Responsibility

200 000

financially literate young people

We believe that financially literate young people are vital to Slovakia's future economic success. FinQ, a certified programme of the Slovenská sporiteľňa Foundation, helps them make good financial decisions that can significantly improve their lives. After a two-year pilot programme, it is now ready to be extended to other elementary and secondary schools. Our aim is for at least a third of all pupils and 15 000 teachers to get involved within five years.

1 000

disadvantaged people housed

We believe that housing can make a positive and measurable change in the lives of socially disadvantaged people and families. Everyone needs access to decent housing if they want to get and keep a job, study, and develop themselves in a stable environment and achieve financial security. That is why we are buying around four hundred flats that will provide new homes for a thousand people. The project is a partnership with the organisation Dostupný Domov (Affordable Homes).

300 000

trees planted

We believe that whether in the forest or the city, contact with nature is vital for public health, climate sustainability and the preservation of the natural character and beauty of our country for future generations. We have taken down our billboards and instead we are supporting truly useful greenery outdoors. After planting the Water Forest in the High Tatras, we will continue planting hundreds of thousands more trees all over Slovakia. Employees of Slovenská sporiteľňa will take part in these projects and they will also be open to the public.

The future is yours

As a responsible leader and Slovakia's largest bank, Slovenská sporiteľňa cares for people and the country where it operates. Through its activities, it helps Slovakia to create a future to look forward to. It has made three public promises to society that it will fulfil in five years: to provide financial education for 200 000 young people through the Slovenská sporiteľňa Foundation's FinQ programme, to provide accessible housing to 1 000 disadvantaged people in need and to plant 300 000 trees.

VIA BONA SLOVAKIA

Slovenská sporiteľňa received the Via Bona award from the Pontis Foundation for fair, responsible and sustainable business in the category Well-Governed Company.

As an acknowledgment of transparency in the corporate governance reporting in accordance with the principle of Corporate Governance, Slovenská sporiteľňa won the special Via Bona award in the category of Well-managed company. Via Bona Slovakia is a unique award for companies for inspiring examples in the field of responsible business and corporate philanthropy. It is awarded by the Pontis Foundation.

SOCIAL ISSUES

In 2021 Slovenská sporiteľňa and its foundation focused their support on excluded and vulnerable communities. They responded to the needs of homeless people, who are among the most vulnerable people in society and whose situation only worsened through the pandemic. The aim of the special grant from the Slovenská sporiteľňa Foundation to vulnerable groups was to ensure their access to care during the winter and a safe place to shelter during the pandemic. The foundation provided extraordinary assistance to 11 organisations with long-standing professional operations in this area: Depaul Slovakia, Diocesan Charity Nitra, Diocesan Charity Žilina, DEDO Foundation, Greek Catholic Charity Prešov, Diocesan Charity Trnava, Oáza – hope for new life, Vagus, Proti prúdu, Stopa Slovensko and the municipal homeless shelter in Nové Mesto nad Váhom. At the end of the year, the Bank and the foundation launched a public collection "Statues don't suffer in winter, but homeless people do" to raise awareness of the difficult conditions that homeless people face, especially in winter. Funds were provided to organisations operating in Bratislava – Vagus, Depaul Slovakia and Proti prúdu.

In 2021, the Bank continued its partnership with the charity campaigns Daffodil Day run by the League Against Cancer, and Children's Hour run by the Children of Slovakia Foundation. The Bank's whole branch network got involved in the collections. For the second time, Slovenská sporiteľňa also participated in a collection organised by the Slovak Catholic Charity to purchase school supplies for socially disadvantaged families and children from children's homes.

The Slovenská sporiteľňa Foundation supported the establishment of "Káčko" – a safe point of contact in Trnava run by the IPčko organisation. At Káčko, a team of professionals provide urgent, accessible, and non-stigmatising psychological assistance and emergency interventions on a low-threshold basis for people with mental health problems.

Social responsibility is tightly encoded in the DNA of Slovenská sporiteľňa and its foundation. Responsibility is not just something they talk about but a permanent and consistent part of their behaviour.

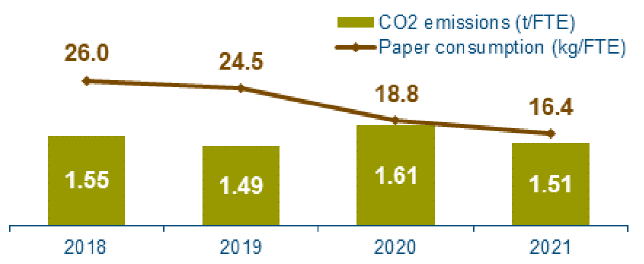
All these activities demonstrate that social responsibility is tightly encoded in the DNA of Slovenská sporiteľňa and its foundation. They show that responsibility is not just something that the Bank talks about but a real, permanent, and consistent part of its behaviour.

ENVIRONMENT

For over ten years Slovenská sporiteľňa has pursued, in its operations, an active and systematic approach to protecting the environment. In the area of support services, around 100 temporary or permanent measures have been adopted and implemented, with nearly a third focusing on energy savings. The outcome after 10 years is that emissions (Scope 1+2) from producing energy used at Slovenská sporiteľňa have decreased by 43%. The reductions were not confined to absolute volumes. A similar decrease in emissions was achieved in specific energy use per unit of area.

In addition to effort to reduce emission produced by its own operations, Slovenská sporiteľňa is increasingly concerned about the carbon footprint of its loan portfolio. It sets out processes and metrics for measuring the footprint of the newly granted as well as existing loans, and, in particular, analyses how to reduce the footprint in the future. The Bank is working on the general ESG framework (ESG stands for Environmental, Social, Governance), preparing analyses of possible cooperation with external partners and it tries to identify ways to increase the share of green investments and assets in its portfolio. Last year, it successfully issued the first green bond and also tested a concept of social bond issuance through its subsidiary SLSP Social Finance, s.r.o. Asset management of Slovenská sporiteľňa (AM SLSP) introduced a new Responsible Investment Fund, the first ESG mutual fund in Slovakia. It has been very popular with investors since its launch, with sales accounting for about a third of AM SLSP's total sales.

New measures include the collection and recycling of payment cards. Clients can return their old, invalid cards and Slovenská sporiteľňa collects them and delivers them to a specialist recycling firm. There has also been progress in the use of recycled paper. This is now the only type of paper that employees can order. In this way the Bank is achieving its stated goal of using exclusively recycled paper. Managers have also received a new tool to monitor and manage office paper consumption in their units. The automated tracking system now supports comparing consumption over time and analysing anomalies.



Development of CO_2 emissions and paper consumption in Slovenská sporiteľňa

In sponsoring, the Bank supported another extremely successful year of the national campaign “Ride a Bike to Work”, with a record 1.7 million kilometres ridden. The most successful municipalities received modern two-tiered bike racks from Slovenská sporiteľňa. In spring, 12 000 saplings were planted in eastern Slovakia with the Bank’s assistance. The planting was a joint project with the Sobrance branch of Forests of the Slovak Republic. This helped revitalise beech forests in a World Natural Heritage Site.

The Slovenská sporiteľňa Foundation supported the 19th Tree of the Year poll in its long-running environmental partnership with the Ekopolis Foundation. The poll highlights the importance, value, and beauty of our trees. More than 22 500 votes were submitted and the winner from the twelve finalists chosen in 2021 was a 70-year-old European beech in Starý Smokovec known as the Umbrella of the Tatras. The poll was accompanied by professional tree care and the planting of avenues of trees.

CIVIL SOCIETY

Slovenská sporiteľňa believes that the development of a healthy civil society is important for the functioning of a modern country. This is why it is one of the founding members of the Fund for Transparent Slovakia and supported the establishment of the Investigative Journalism Fund managed by the Open Society Foundation. It also continued its support for the Journalist Award.

As part of the Bank’s ongoing partnership with the Bratislava city centre Old Market Hall, it supported the presentation of Tube, a large-scale art installation that attracted 46 000 visitors during the summer months. Slovenská sporiteľňa provided a second year of payment convenience for all events and markets in the Old Market Hall, with payment terminals for traders and more options for cashless payments. The Old Market Hall is a step closer to zero waste thanks to support for the purchase of an industrial large-capacity composter. This processes up to 100 kg of compostable waste every day, which covers the needs of the businesses and traders in the market. New outdoor seating was provided for the benefit of visitors to the Old Market Hall under the slogan “Sit down in good company”. It offered a great place to relax during the summer, when anti-COVID measures were relaxed. The Bank’s active membership of the Živé námestie (A Vibrant Square) project demonstrates its commitment to improving public space in downtown Bratislava.

The Slovenská sporiteľňa Foundation sponsored the White Crow Awards (run by the Bystriny civil association) for the sixth time to honour acts of civil courage that benefit society. After a one-year break, the awards ceremony took place with a live audience on its traditional date of 17 November, the day of freedom and democracy. The motto of the ceremony was “Not just appearances but actions”, which reflects the current need to focus on the fundamentals of our democracy. The awards were shared by three winners – Lenka Ticháková, Zuzana Bat'ová and Soňa Holúbková.

CULTURE AND SPORT

Nearly half the Bank’s sponsorship activities in 2021 focused on culture because Slovenská sporiteľňa believes it plays an important part in people’s lives and, as the pandemic proved, is highly vulnerable in the present circumstances. That is why Slovenská sporiteľňa continued its long-standing partnership with such projects as Bratislava Jazz Days, the Konvergencie festival and the Pohoda music festival, which followed up on the previous year’s online format with a smaller-scale event Pohoda on the Ground, at its usual home, Trenčín airport. During the Viva Musica! festival, attenders could experience top Slovak performers and two special projects linking music with literature (Stories from the Deep Sea) and film (Jánošík 1921).

In 2021 Slovenská sporiteľňa established new partnership with the renowned event, White Night, as part of which the inner spaces of the Bank’s headquarters on Tomášikova Street in Bratislava were opened to the public for the first time. In one room, visitors could find a 10-metre light installation by Monika & Bohuš Kubinský with background music by Fero Király and an audiovisual installation, the Future is Yours, by the group Lovely Experience.

In sport, Slovenská sporiteľňa and its foundation continued their support for children to develop a more positive relationship to movement through their traditional partnerships with the Peter Sagan Children’s Cycle Tour and the Matej Tóth Sports Academy.

Customer Care

PUTTING THE CUSTOMER FIRST

Proactive approach to customer satisfaction

In a turbulent year when much needed to be done, it was a challenge to maintain high client satisfaction. The Bank therefore opted for a proactive approach that would make changes as easy as possible for clients and prevent unnecessary problems. Slovenská sporiteľňa conducted several preparatory surveys focused on client preferences, expectations, and potential barriers. Individual activities were spread out over time, so that the Bank could respond to the influx of feedback. Furthermore, initial communication was not the end of the matter; it was also important to resolve situations that arose during implementation and learn from them. This was helped also by a new internal platform for information exchange between the Bank's departments.

Seeing things from the client's point of view is bearing fruit, and this is the approach we strive for at Slovenská sporiteľňa.

Customer satisfaction is among the key performance indicators (KPI) used for the variable wage component calculation for all the Bank's employees. Satisfaction of the retail and SME clients increased compared to year 2020 and is among the highest on the market. In 2021, the customer satisfaction index reached the high value of 95%, and there was also a stable and high level in the case of satisfaction with service on the infoline. Many other measures, among others financial plan which help improving clients' financial health, new functionalities in George or new loyalty programme Moneyback, also contributed to the total customer satisfaction. It is also important that the Bank's digital channels are the best-rated area, and satisfaction with them is continually growing.

95%

customer satisfaction after visiting a branch

Slovenská sporiteľňa places great emphasis on clarity and friendliness in providing information. For this reason, the Bank continually adjusts responses to complaints so that the client can easily understand them, while also providing recommendations for avoiding a similar situation in future. Furthermore, the Bank's website has been augmented with a continuously updated "most frequent issues" section to enable customers to get the answers to their questions. The complaint handling process was improved for communication in both branches and the Client Centre, and the website now offers a simple method for sharing positive or negative experience online.

RETAIL PRODUCTS AND SERVICES

Digital channels are becoming commonplace

The continuing pandemic has bought a new trend of higher expectations in the online environment, where clients take the handling of banking matters in digital channels for granted. They are increasingly logging into mobile apps, which they are starting to use as their primary contact with the Bank. Therefore, they consider any missing functionalities or differences compared to the web version to be a deficiency. For these reasons, Slovenská sporiteľňa is constantly striving to improve George by expanding its digital range of products and functions. The result has been the achievement of the million users mark in George, and a long-term high rating of the George app in the AppStore, GooglePlay store and in the Huawei AppGallery, where George even won first place in the Smart Bank 2020 survey.

The higher number of users, the introduction of new end-to-end processes in George, but also pandemic-related restrictions have meant that the total number of products sold via digital channels has grown significantly, by 68%. Digital sales thus accounted for more than a fifth of all sales, with this share being significantly higher in the case of some products. Notable improvements included extraordinary repayment of a mortgage or consumer loan via electronic banking, full-value online mortgage transfer and various improvements in digi consumer loans – more comprehensive insurance coverage for seniors for unforeseen life situations, identification of the necessary documents for proof of income, and the ability to fill in multiple incomes. The Bank plans to continue working to bring the provision of consumer loans and other unsecured products into a more welcoming omni-channel client route with the aim of having even better targeted offers for its clients.

One of Slovenská sporiteľňa's strategic goals is to maintain its position as digital banking leader.

In 2021, the Bank also simplified refinancing. In the second quarter, Slovenská sporiteľňa launched a simpler process for transferring loans from another bank, with refinancing taking just one visit to a branch, without a single signature or complicated paperwork. Subsequently, in the fourth quarter, the Bank expanded the possibilities for consolidating loans in digital channels, where it now enables refinancing of a loan from another bank directly from the comfort of clients' home.

+ 68%

growth in total products sold via digital channels

In-branch customer service is also being digitalised thanks to the tablet

Financial advisers in branches have been using tablets as their main tool for several years. They can now manage all sales processes for the Bank's main financial products from their tablets. In this way, the Bank streamlines processes, digitalises them, and improves the client's overall experience during a branch visit.

The Financial Plan in the tablet was extended to include a loan offer. After obtaining the input data and identifying the client's needs, the adviser first presents financing options and only then moves on to the management of available funds. The Bank is constantly improving its tablet processes and adjusting them based on experience in practice.

The need for remote advice continued in the second year of the pandemic. Personal advisers conducted remote interviews via tablet, which could also be used to visualise a solution during the interview. Moreover, interest in financing via out-of-branch channels rose even when restrictions were relaxed and clients could return to branches. Clients' interest in solving their needs remotely thus shows a naturally growing trend.

>800 000

number of users of the George mobile app in 2021

Responsible lending even during the pandemic

In financing housing, the Bank focuses mainly on internal sales channels, while endeavouring to digitalise all steps of the process. This leads to shorter processing times, and better client service overall. The housing loan market continued to grow significantly in 2021, when the volume of new mortgages far exceeded the previous record. Despite unsustainably low rates offered by the competition, several activities made it possible to stabilise the Bank's market share in retail loans during the second half of 2021 at 24.7%, and grow the balance sheet by €614 million year-on-year, confirming the Bank's position as market leader. It has simplified and improved conditions for providing loans to university students and co-financing housing needs. Next year, Slovenská sporiteľňa plans to participate in financing "green homes" in order to reduce energy dependence and increase the quality and comfort of living in Slovakia.

Finding solutions for existing clients is the Bank's priority in financing consumption, primarily through its own distribution channels. The year 2021 was marked by a gradual recovery in consumer credit sales, but anti-pandemic measures slowed that recovery again at the end of the year. Nevertheless, the volume of gross sales increased by about 17% year-on-year. The improvement was further supported by the streamlining of distance selling processes, which made it possible to halve the time from the application to drawing the loan.

Less and less cash

With 200 branches and 750 ATMs, Slovenská sporiteľňa's distribution network is the largest in Slovakia. The Bank continues adding so called advisory branches as well as branches with self-service zone, available to clients 24 hours a day, 7 days a week.

Arrival of Vesna during the Christmas period also supported Slovenská sporiteľňa's position of the digital leader. Clients can meet the new digital advisor in the Nivy Bratislava branch, in the self-service zone. The technological novelty combines several innovations into one unique unit in the form of a holographic 3D avatar. The automated conversation interface is integrated directly into the IT architecture, so clients can also get an answer to frequently asked questions in writing on Slovenská sporiteľňa's website.

In 2021, Slovenská sporiteľňa significantly accelerated the deployment of ATMs enabling both deposits and withdrawals. By the end of the year, there were already 150 in operation, which is almost twice as many as at the start of 2021, when there were 80 in operation. Slovenská sporiteľňa has thus become the leader in the Slovak banking market in the number of self-service cash deposit facilities. The number of cash deposits made by self-service facilities grew by 60%, with the volume of deposits growing even more, by 74%. Self-service facilities are now the Bank's dominant channel for cash services.

The effect of the pandemic, together with the continuing digitalisation of payments and the transformation of client service, was reflected in the continuing year-on-year decline in clients' cash transactions at the Bank, the total number falling by more than 6%. Although their volume increased slightly year-on-year (+3.5%), it is still below the level of the pre-pandemic years. The most significant decrease in the number of clients' cash transactions was recorded in the Bank's branch network.

Instant payments – a significant innovation in the Slovak market

Over the course of the year, Slovenská sporiteľňa developed and modified systems for introducing this new digital payment function. Together with two other banks, it has signed up to the National Plan of the Slovak Republic, according to which instant payments will be made available to clients from February 2022. To date, a transfer of money to another bank has taken one business day. Instant payments bring the ability to send and receive money between banks in a matter of seconds. This service will be available 24 hours a day, 365 days a year, regardless of weekends or holidays. It must be noted that instant payments will work only between banks that have decided to offer this service. Nonetheless, their potential is undoubtedly huge, as in addition to banks in Slovakia, it will be possible to send or receive instant payments even with foreign banks offering this service in 36 countries.

Mobile payments became much easier with the new solution called Payme. It is quick and easy way to send IBAN and amount to be paid via any chatting mobile application. The payme.sk service is operated by the Slovak Banking Association.

We create innovations at the Bank that are accessible and useful for as many clients as possible. This applies also to the introduction of instant payments.

Another new feature concerns the Swift network, which is used for exchanging messages between banks around the world. It is switching over to processing data in XML formats according to ISO 20022, which entails additional significant technological modifications to bank systems. Slovenská sporiteľňa is striving to incorporate them with least possible negative impact on clients.

Now only VISA cards at Slovenská sporiteľňa

The transition to cooperating with just one card company was, without doubt, a significant change. In 2021, Slovenská sporiteľňa successfully signed a new contract with VISA and subsequently began migrating more than 400 000 MasterCard cards.

During the year, the Bank also made it possible to set up an additional card online in George. The introduction of the George Moneyback service was also successful, with approximately 260 000 George mobile app users activating this functionality as of December.

ASSET MANAGEMENT FOR RETAIL

Financial Plan becoming increasingly popular

The year 2021 confirmed that Slovenská sporiteľňa's ambition to bring clients a financial plan was correct and is useful for clients. Thanks to it, almost three-quarters of a million clients are better prepared to cope with various life situations. Over the year, advisers helped approximately 450 000 clients set up an individual Financial Plan using a branch tablet. Slovenská sporiteľňa wants to continue strengthening its position in financial planning and thus be the best adviser for life and business. This is one of the reasons why it will launch further innovations in financial planning and investment advice next year.

+ 64 ths.

growth in the number of regularly investing clients

Significant growth of interest in investing

The pandemic situation has substantially influenced the behaviour of Bank clients and their approach to money. The accumulation of savings on current accounts has gradually given way to a return to current consumption. Indeed, clients caught up with "missed" consumption from the months in lockdown. The significant rise in inflation in the second half of the year directly contributed to an increase in clients' demand for more dynamic forms of investment that protect their money from depreciation over the long term. After a turbulent 2020, financial markets saw strong continuous growth in 2021, exceeding historical highs. This contributed significantly to the sale of investments.

Regular investing was very popular, with the number of newly opened programmes rising by almost 40% against 2020. One-off investments also recorded record sales amounting to half a billion euros. The first Slovak ESG fund – the Responsible Investment Fund – contributed significantly to this success.

George also contributed to the increased sales. This was significantly helped by the launch of sales in the mobile app, but also by the addition of shares and ETFs (exchange-traded funds) to the offer, thus responding to the great interest of clients. Clients can look forward to new investment opportunities next year, naturally with the greatest possible use of electronic channels.

Following the end of sale of the long-running "Deposit Book" product, Slovenská sporiteľňa will offer its clients more modern savings options.

Slovenská sporiteľňa provides clients with various forms of money appreciation, from conservative solutions to modern forms of investing funds (e.g., mutual funds, ETFs, or shares). In addition, it can provide a wide range of life and non-life insurance through bancassurance. With its sale of 2nd and 3rd pillar pensions, the Bank also offers comprehensive coverage of pension needs.

Interesting news in insurance

In the area of insurance, the most significant negative impact of the pandemic was felt mainly in the first months of the year. Nevertheless, the insurance company Kooperativa, as a strategic partner of Slovenská sporiteľňa, also undertook for 2021 to provide insurance benefits from life insurance currently sold by the Bank also in the event of death from covid. Despite all the unexpected events, Slovenská sporiteľňa managed to increase its net insurance brokerage revenues by €3.1 million.

Slovenská sporiteľňa has enriched its life insurance products with assistance services enabling clients to use a broad range of health assistance without the need to visit a branch. The Bank also met the needs of clients who decided to spend their holidays in Slovakia due to restrictions. Thanks to travel insurance for payment cards, the Bank's clients were covered during the summer also for mountain rescue costs in Slovakia with no additional charge. Real estate and household insurance was also improved. In addition to lower insurance prices, the product was expanded to cover new risks with higher insurance limits for selected areas of coverage. Slovenská sporiteľňa is thus able to offer not just cost-effective but also high-quality property insurance as part of the mortgage process. With one-off life insurance, clients can now opt for socially responsible investing thanks to the new Responsible Future fund.

€38.6 million

net income from insurance brokerage

Erste Private Banking again wins several prizes

Erste Private Banking (EPB) offers comprehensive, long-term asset management for clients with assets exceeding €500 000, taking account of their current needs. The vision is to be a leader in the quality of private banking services provided, with the largest share in the Slovak banking market. Emphasis is placed on client satisfaction, high quality of services provided, transparency, discretion as well as responsible and sustainable investment**.** One of the next challenges is to address generational change in family firms.

At present, the natural focus is on digital investing through George – whether via the web or a mobile app. Overall, client service is increasingly moving to digital channels, e.g. with the addition of the possibility to enter instructions via recorded telephone calls. Clients can use comprehensive online private banking services such as account opening, asset management or investing in mutual funds, investment savings, and in particular the purchase and sale of selected bonds, shares, and ETFs.

The volume of assets under management reached a historic milestone this year, reaching €1 billion for the first time. One of the factors that contributed to this was active client portfolio management, which is a special solution for EPB clients. Clients can choose from four investment strategies in an exclusive investment solution offered by the investment company Blackrock.

Erste Private Banking's product offering expanded significantly in 2021. At the start of spring 2021, Asset Management of Slovenská sporiteľňa (AM SLSP) introduced the first Slovak socially responsible fund, the Responsible Investment Fund, which enables clients to invest in shares of companies that meet strict environmental, social, and management criteria. In the summer, social bonds were subsequently introduced. Slovenská sporiteľňa started selling the bonds of its subsidiary Social Financing SK, with the aim of financing the purchase of rental flats for socially disadvantaged groups. These bonds were marketed primarily to private banking clients, who could also invest in them via George.

Other attractive investment opportunities included primary issues of tailor-made investment certificates, an alternative investment fund from Trinity Partners AG or various real estate investments. The volume of investments in industrial real estate through the fund of the Czech investment company Accolade grew significantly, though EPB clients also had investment opportunities in bonds from the developers HB Reavis, Lucron and CORWIN, as well as the real estate fund ERSTE Realitná Renta from AM SLSP. In 2021, it made its first real estate investment in the Zuckermandel project.

€ 1 billion

assets managed by EPB with more than 1 500 clients at the end of 2021

The quality of Erste Private Banking services was also praised by the prestigious Euromoney magazine and The Banker magazine, which awarded it the title Best Private Banking in Slovakia and Best Private Banking in Central and Eastern Europe.

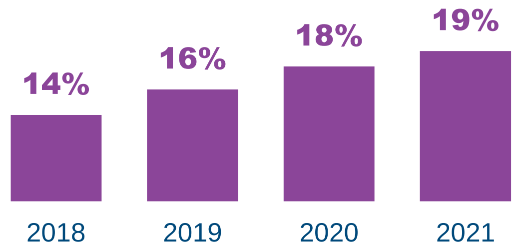
CORPORATE BANKING

Focus on the client

Key to fulfilling the Bank's strategy was to gain clients' feedback and the prospects for their continued business operations. This also proves that Slovenská sporiteľňa is a stable partner, standing by them even through hard times. Significant help came in the form of loan programmes mitigating the negative effects of the pandemic, alongside an overall individual approach to solving clients' problems. The approach to clients had to evolve flexibly also from the aspect of different economic sectors, as the coronavirus restrictions impacted these differently. Online meetings, by which Bank employees adapted to the change in clients' working lives, have gradually become the norm.

Slovenská sporiteľňa wants to be the best financial advisor for corporate clients. It also wants to bring innovative digital solutions that provide added value in relation to the Bank.

Thanks to the fact that clients had the chance to see that Slovenská sporiteľňa is a stable partner for them even through difficult times, the Bank enjoyed the highest recommendation rate among the Slovak banks and, at the same time, reached the record high number of clients considering it as their bank of first choice. The Bank achieved such a good rating from its clients not only thanks to its digital services, but due mainly to its high-quality corporate advisers, who, according to a Go4insights survey, have better than those at competition already for three years.



market share in loans to non-financial companies

Corporate banking greatly digitalised

In 2021, there was almost no area in corporate banking that was not affected by digitalisation. The service model is undergoing continuous changes focused on automation and digitalisation of processes. Clients can send an ever wider range of documents via the digital channel, leading to an almost 50% year-on-year increase in the use of this paperless alternative. A great favourite is also Business24 corporate internet banking, which the Bank is constantly improving. More and more clients are also using the mobile application when banking with Slovenská sporiteľňa. In 2021, the number of corporate clients using the mobile version of B24 or George increased by approx. 1500.

+519

increase in the number of active clients

The future in serving corporate clients is also connected with developing digital so that Slovenská sporiteľňa can be said to be a truly omni-channel bank, where in-person meetings or online contact are equivalent. Internal credit processes are also seeing progressive digitalisation, with one of the goals being online onboarding for corporate clients, as is already available to retail clients.

Science in the background

The Bank is also keeping step with the times in areas unseen. It has joined the trend of using machine learning, which helps predict client behaviour before the Bank contacts them. Applying behavioural statistical models is part of the Bank's approach to corporate banking based on data science. These models not only help in assessing loan applications but can also highlight possible problems arising even before the client themself is aware of them.

Growth mainly in SME and Real Estate segments

Growth in the credit portfolio came mainly from lending to the small and medium enterprises (SMEs) segment, and commercial real estate financing. The smaller segment of public sector financing, where Slovenská sporiteľňa is the market leader, also recorded solid growth. Overall, the balance of loans to non-financial companies increased by €350 million, taking the Bank's market share to a historic high above 19%.

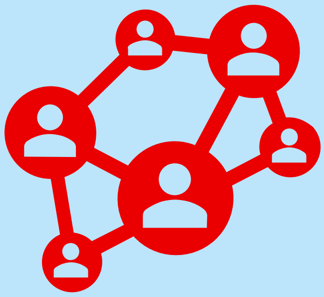
In the financial institutions segment, the past year was successful for the Bank. Some trends from 2020 continued without change as markets rose throughout the year, while interest rates remained at low or negative levels. Accelerating inflation, higher inflation forecasts, and the reactions of certain central banks nevertheless point to approaching change in financial markets. In 2021 there was an increase in investment risks, and it became more difficult to place securities on the primary market, which forced asset managers to operate more on the secondary market. The volume of trading in derivatives for hedging was more than double that of the previous year.

More than just loans...

Slovenská sporiteľňa strives to provide corporate clients with prosperity advice. This is not just about growing the loan portfolio, but also expanding the product range beyond the conventional, often in cooperation with third parties. Through Slovenská sporiteľňa, clients can thus set up insurance, participate in the guarantee schemes of multinational institutions, or even conclude a leasing contract. The Bank also had notable success in factoring services, where the volume of receivables financed grew year-on-year by more than 50%.

Another significant simplification of the clients' business was the introduction of a mobile terminal. It is a digital innovation that turns any supported mobile phone into a real payment terminal. It allows corporate clients to accept card payments whenever and wherever it suits them.

Awareness of Slovenská sporiteľňa as a bank for corporate clients grew again, thanks to the third year of autumn's largest business event – the #akonato conference. The conference gave small and medium entrepreneurs the opportunity to hear motivating speakers, learn from business success stories, and meet new business partners. At the end, we announced the winners of the FéliX awards.



Responsibility to employees

EMPLOYEES ARE KEY TO SUCCESS

The Bank wants to be an attractive employer that empowers individuals to discover and fully develop their talents to fulfil clients' growing expectations. The Bank is aware of the importance and uniqueness of the potential in its employees, and that is why it devotes great attention to their development and providing them with suitable opportunities. The Bank wants these efforts to benefit its clients, our whole society, and not least, the employees themselves. Slovenská sporiteľňa is aware that it can remain a market leader, as it is now, only if it efficiently and quickly manages all the challenges it faces. This is possible only thanks to modern financial solutions, and the skills and experience of its staff.

We want to keep our position as leader and best employer in the market. We want to be a good example in recognising our employees' unique potential, developing it, and giving them opportunities to serve not just our customers but all society.

Slovenská sporiteľňa continued the transformation of its approach to human resources in 2021. Where possible, processes were automated and digitalised. A part of the Bank began using agile work methods, and two more LABs were created. Some departments underwent reorganisation. The number of managerial positions was reviewed and reduced, with processes being streamlined and capacities optimised. In brief, we started to do many things differently: better, more simply, and more efficiently.

New methods in communication and onboarding

For Slovenská sporiteľňa, social networks remain the primary channel for external communication of the employer's brand. These ambassadors, or influencers, seek to informally present to the public the Bank's direction, its innovative products, inspiring work, motivating leaders, as well as the leisure-time activities of work teams. The development of a new bank culture is thus driven not solely by top management but is the product of contributions from all employees.

The onboarding of new recruits has now moved completely online. From their first day, new employees receive positive motivation and get to know the values of the Bank and its product portfolio through an interactive program on an internal SharePoint page. Firstly, this allows newcomers to focus on the content at their own pace and return to specific points whenever they need, and secondly, also serves as a tool for managers to document set expectations at each phase of onboarding new employees.

Cooperation with the Slovak University of Technology in Bratislava is one of the long-term activities for securing the highest quality employees. Slovenská sporiteľňa, together with the Faculty of Electrical Engineering and Information Technology and the Faculty of Informatics and Information Technologies, successfully created topics and thus provided space for nine students writing bachelor's and master's theses. In this way, the Bank supports a model that gives students inspiration and, at the same time motivation to recommend Slovenská sporiteľňa as an employer, or even work there in future.

Long-term staff development in various areas

In line with the Bank's initiative to improve its ability to react to change, Slovenská sporiteľňa offered its employees the opportunity to learn about their strengths and how to apply them at work. After an initial test to identify their talents, they can be matched with trained Bank staff for one-to-one coaching.

Employee training is also moving into the digital realm. Besides online courses on traditional, often legislatively mandated, topics, Slovenská sporiteľňa is adding access to the modern development platform Seduo. Employees can access more than 320 courses in Slovak and Czech whenever and wherever it suits them. The widespread digitalisation was also supported by a Microsoft week tying in with the adoption of the Office 365 platform, during which Bank staff could learn about the applications in the package, their full potential, and the current trends and future plans of Microsoft.

Employee health remains a priority

The topic of employees' health resonated through 2021 as the pandemic continued. To support natural immunity, Slovenská sporiteľňa once again provided its employees with vitamin packages. Furthermore, the Bank sought to motivate employees to get vaccinated by providing a day off, and reimbursed staff for antibody tests. At the same time, the Bank did not neglect traditional, non-COVID healthcare. Its employees have a long-term benefit in this area in the form of an above-standard preventive check-up.

8

titles Employer of the Year in Finance

Employer of the year again in 2021

For the eighth time, and the sixth year in a row, Slovenská sporiteľňa won the prestigious title of the Most Attractive Employer of the Year in the Banking, Finance and Insurance category in a poll carried out by Profesia. Its aim is to provide a realistic overview of the attractiveness of employers in the sector, including the benefits provided and their overall image compared to their competitors.

DIVERSITY IS NOT JUST A WORD

Most people recognise that each of us is different in something. This need not just be about outwardly apparent differences, but also unobservable differences in problem-solving methods, communication, or the ability to work in a team. But it does not end just with people's diversity. An inclusive corporate culture for Slovenská sporiteľňa means recognising the individuality of each employee. The Bank takes care to ensure that everyone has an equal opportunity to learn, choose their path to success, and contribute to the common goal in their own unique way. We want to support everyone in making use of their strengths regardless of their age, sex, gender identity, experience, or social background.

We believe in people and in their power to realise plans, fulfil their dreams, and create prosperity. This is possible only if everyone can develop freely, without obstacles such as discrimination or fear.

Slovenská sporiteľňa made a public commitment to promoting inclusion and diversity when it became an ambassador of the Diversity Charter initiative administered by the Pontis Foundation. Internally, it has elaborated its principles and guidelines on diversity issues in a standalone directive, the Diversity & Inclusion Policy. The directive provides managers and employees with guidance on how best to integrate diversity management into the Bank's culture and business.

In addition to these somewhat formal steps, the Bank engaged in many activities with a practical impact in this area in 2021. The Bank addressed the topic of subconscious prejudices through online training and workshops for selected human resources workers to prevent the effects of prejudices that often go unnoticed. It also became an ambassador of the "Happy Mondays" initiative, combating prejudice at the workplace. On International Women's Day, the Bank ran an internal campaign on equal opportunities, showing that stereotypes about men's and women's work are gradually being broken down at Slovenská sporiteľňa.

"By creating a diverse working environment, we get to see things from various perspectives, and thus find innovative answers and solutions for our clients.

At Slovenská sporiteľňa, diversity and variety form a natural part of the corporate culture and its principles, such as belonging, responsibility, commitment, and the ability to change.

We believe in the uniqueness of each employee and support them so that they can make full use of their strengths, regardless of their age, sex, origin, or social background."

Peter Krutil, CEO and Chairman of the Board of Directors

During the year, the Bank cooperated with its parent Erste Group to organise several discussions and workshops on topics such as women's financial literacy, diversity in corporate culture, and on the need for data on diversity. Slovenská sporiteľňa used Diversity Day to launch a campaign aimed at the perception and promotion of diversity, which also included a competition for employees to share stories with examples of respect for diversity. On World Down Syndrome Day, the Bank supported the "Sock Challenge", which raised awareness of this genetic disease.

The Bank also addressed the topic of diversity in its internal magazine Sporka, on the mamnato.sk website, and even prepared a separate page on the internal SharePoint site to communicate about inclusion and diversity.

Management Report on Bank's Activities in 2021

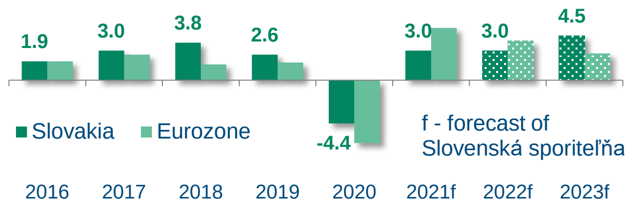
(based on the consolidated financial statements)

THE ECONOMY IN 2021

The fast-changing pandemic situation continued to impact the economy in 2021 but there were also new challenges. Rising inflation, supply chain problems, and energy prices presented obstacles to economic recovery.

Supply chains problems complicated the revival

The continuing pandemic slowed economic growth, especially at the beginning and end of 2021, when public health measures greatly impeded domestic consumption. Whereas strong foreign demand enabled industry to drive economic growth in the first half of the year, the situation changed in the second half of the year due to global supply chain problems. As a result, early growth estimates were cut, and the average GDP growth in 2021 reached 3.0%.



Economic growth in Slovakia and the euro area (%)

Unemployment fell despite problems in the economy

Jobs were lost due to the covid pandemic mainly during its first year, whereas 2021 showed a slight decrease in unemployment overall despite the numerous complications in economic development. The pandemic situation and the manufacturing problems caused by a lack of inputs were compensated to some degree by various employment support schemes that helped businesses to retain workers even under difficult conditions. The average unemployment rate last year was 6.8%. The improved situation in the labour market was reflected in higher nominal wages, which returned to their pre-crisis dynamic growth.

Inflation back at the centre of attention

The rapid revival of global demand, the shift of consumer preferences from services to products, and supply chain problems caused a noticeable rise in the price of inputs and finished products. Inflation thus became a resonant theme once again. The main pressure came from commodity prices, mainly food, fuels and construction materials prices while base effects also played certain role. The average inflation rate for 2021 was 3.2%, and it is expected to rise more steeply in 2022, reaching 7%, precisely due to higher energy prices.

Effects varied across the euro area

Adverse effects were also felt in other European countries. While the most severe impacts in the early days of the pandemic were felt by countries that are most dependent on services and tourism (e.g., Spain, Croatia), they began to afflict also European industry at the end of last year. Germany, our main trading partner, and the economic motor of the European Union, had growth of 2.9% last year while the euro area as a whole grew by 5.3% on average, influenced largely by base effects.

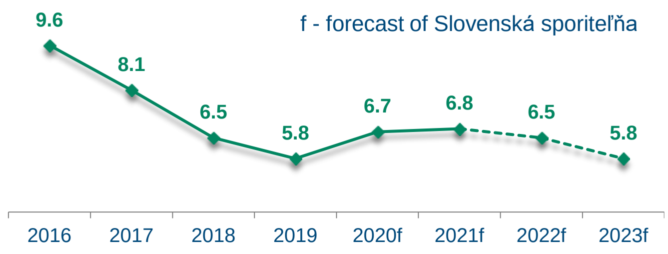
The ECB is tapering down its asset purchases

Last year, the European Central Bank (ECB) continued its loose monetary policy, mainly by maintaining very low interest rates, Targeted Long-Term Refinancing Operations (TLTRO) programmes and asset purchases, which were the focus of the pandemic emergency purchase programme (PEPP) adopted in response to the covid pandemic. Because this was an emergency programme and the ECB considers the emergency to have passed, the programme will be terminated in March 2022. It will be followed by a temporary increase in the traditional quantitative easing process known as APP. Rising inflation is creating pressure for an early rise in central bank interest rates. Although the ECB considers the rapid rise in prices to be only temporary, these pressures may lead to the first rate hikes already in 2022.

The yield on Slovak government bonds became negative during the pandemic. However, in December 2021 they returned to positive numbers and this growth should continue after the tapering of ECB purchases.

Public debt will exceed the Maastricht limit of 60%

The pandemic placed great pressure on the state budget. Expenditure on measures to control the virus and a large reserve for adverse situations have enlarged the deficit and public debt over the last two years. We estimate that last year's public deficit was around 6%. The state budget for 2022 anticipates a deficit just under 5% of GDP with major consolidation after 2023. The ratio of public debt to GDP is expected to exceed the Maastricht limit of 60% and we predict a return below this level only in 2024.



Unemployment rate in Slovakia (%)

Uncertainty surrounds 2022

The economy's performance in the coming year will depend on how the problems in supply chains and energy prices develop. These could suppress industrial production and also have a negative effect on domestic consumption because households will have less to spend. Positive impulses will come from the continuing post-pandemic revival in demand, the start of implementation of the Recovery Plan and the use of EU funds for the period coming to an end. Economic growth could thus reach 3%, which could bring unemployment down further to 6.5% at the end of the year, with average wage growth amounting to 6%.

FINANCIAL RESULTS

After a slowdown in 2020, lending picked up

Slovenská sporiteľňa's total assets grew against a year earlier by almost 12% (+ €2.4 billion). The rapid growth was due mainly to loans to clients and deposits at the central bank. These were linked to the use of an advantageous source of funding in the form of targeted long-term refinancing operations (TLTROs) of the European Central Bank (ECB).

€23.2 billion

value of Slovenská sporiteľňa's total assets

The net value of loans to clients increased by almost 7% over the course of 2021 to €15.9 billion, which represents 69% of total assets. The share of loans in the balance sheet thus fell by approximately 3 percentage points. Loans to households contributed the most to credit growth (+€614 million, i.e. +6%) primarily through housing loans. Loans to non-financial institutions also grew significantly (+€350 million, i.e. +9%), while loans to the general government sector recorded slightly more modest year-on-year growth (+5%). Slovenská sporiteľňa thus maintained its position as a leader in retail banking with a market share of 24.7% and, for loans to non-financial institutions, it confirmed the growth trend of its market share, to reach a 19.1% share at the end of 2021.

The volume of debt securities carried at amortised cost increased by 6% against the previous year to €3.9 billion. The main factor was the purchase of Slovak government bonds.

Deposits grew slightly faster than loans

Year-on-year growth in client deposits accelerated and exceeded 7% (+€1.1 billion) in 2021. The year-end balance thus reached €15,973 million. Slovenská sporiteľňa, with its market share of 28.3%, remains clearly the largest bank in the retail deposits market. These increased by 6% (+€751 million) compared to the previous year, with deposits of institutions and large corporate clients showing an even larger percentage growth. Net inflow of corporate deposits in the amount of €314 million came after their decline in the previous year. Net loans to clients at the end of 2021 were fully covered by client deposits, with their ratio reaching 99.5%, which is a slight decrease from last year's 100.2%.

Deposits from banks were significantly higher than in the preceding year, due to an increase in long-term refinancing operations (TLTROs) with the ECB. At the end of 2021, the Bank recorded the received funds as a liability from TLTRO in the amount of €2.7 billion. For this reason, too, it did not need to issue a large amount of debt securities, with their value decreasing against a year earlier (-5%). The Bank's equity increased by almost €260 million to the level of €2.1 billion. The Bank meets all capital indicator limits set by the regulator.

Operating result up by 5 % year-on-year

Compared to 2020, Slovenská sporiteľňa's net interest income declined only slightly, by €5.7 million to €427.9 million (-1%) despite the persistent environment of extremely low market interest rates and the associated decline in interest income from loans. The positive effect on net interest income came from the negative interest rate liabilities (TLTRO) which amounted to €27.8 million in 2021.

Conversely, net fee and commission income increased significantly by more than €27 million (+18%). Fee and commission income for distributed but unmanaged funds also provided a significant positive contribution, growing by almost €12 million against a year earlier. In this category, there were higher net commissions for brokering investment in funds (+€8.8 million) and insurance (+€3.1 million). Revenues in the category of payment services also increased, where this figure includes a positive effect from the Bank's changeover to cooperation with a single card company.

The year-on-year decline in net trading income was primarily due to lower income from securities and derivatives trading.

General operating expenses increased slightly year-on-year (+2%) to €292 million. The main reason for their increase was a higher contribution to the Deposit Protection Fund (from €1.1 million in 2020 to €9.4 million in 2021) without which total operating costs would have fallen by more than 1%. Although other operating expenses increased slightly in addition to the aforementioned levy, this was offset by a decrease in personnel costs (-2%, i.e. -€3.1 million), accompanied by reduced depreciation and amortization.

Operating profit in the final total was €16.6 million (+5%) higher year-on-year, which is a very favourable result given the difficult external environment of low interest rates. The ratio of operating costs to operating income (CIR) improved significantly on the previous year, decreasing by 86 basis points to 47.6%.

Lower provisions contributed significantly to higher profits

The recession was reflected in the Bank's results most clearly in the creation of provisions against loan losses. In 2020, Slovenská sporiteľňa reported a net impairment loss on financial instruments in the amount of €108 million. The economy's rapid and robust recovery, and the associated lower-than-expected default rates, allowed for reduced provisioning, and in some cases the dissolution of provisions. This led to a net impairment loss on financial instruments of only €1.1 million. Its ratio to gross loans (i.e. risk costs) thus fell from 0.7% to zero year-on-year. Nevertheless, it should be noted that such low provisioning is not sustainable in the long term, and provisioning will in future return to its original pre-crisis values.

Other operating profit improved by €33.7 million, which reflects the cancellation of the bank levy.

€228 million

consolidated net profit for 2021

The Bank's consolidated net profit in 2021 reached €228 million, representing a year-on-year growth of 111% (+120 million). The largest share of this significant growth came from the lower creation of loan loss provisions, the cancellation of the so-called bank tax, and a relatively large increase in operating profit. Return on equity in 2021 was 12.2%, compared to 6.2% in 2020.

RISK MANAGEMENT

Risk management principles

Effective risk management is one of the core pillars of the success of Slovenská sporiteľňa's business operations. Therefore, the Bank strives to introduce and to constantly improve processes for monitoring, evaluating and managing all the important risks to which it is exposed. These include in particular credit, market, operational, and liquidity risks.

The Bank's risk management objective is to identify all the significant risks to which it is exposed, to accurately assess their potential adverse impact and to have procedures for managing and controlling them effectively. Risk management is guided by the following basic principles:

- prudent approach to risk, emphasising long-term sustainability;
- risk management is as far as possible independent of business lines, it is centralised, and has sufficient resources and powers to fulfil its functions;
- risk management is integrated; the overall risk profile reflects interdependences between individual types of risk, and risk exposure is constantly managed with regard to the amount of capital available;
- the Bank does not enter into transactions, investments or products involving risks that it cannot assess or manage.

The set of indicators determining the Bank's targeted risk profile is defined in a binding document, the Bank's Risk Appetite Statement, which is one of the determinant inputs to the Bank's strategic business plan.

20.5%

total capital adequacy in 2021

Capital adequacy grew

The Bank's consolidated capital adequacy rose from 18.7% at the end of 2020 to reach 20.5% in 2021. The capital adequacy ratio grew during 2021, mainly due to the positive development of own funds over the year. In addition to the growth in retained earnings, the increase in own funds was due in part to a lower volume of deductible capital items owing to the creation of provisions to cover the Bank's credit risk, and the issue of additional Tier 1 capital in the amount of €80 million. The significant year-on-year decrease in provisions was related to the favourable development of non-performing loans in the current year, as well as value adjustments in the past year for potential losses on loans caused by the adverse impact of the covid pandemic, which did not materialise in 2021.

Throughout the year, the Bank easily satisfied the ECB's minimum capital adequacy ratio, including all capital cushions. The long-term development of Tier 1 and CET 1 capital ratios copies the trend of total capital adequacy.

Liquidity situation remained stable

Slovenská sporiteľňa's liquidity situation remains problem-free. The Bank fulfils all relevant statutory and internal requirements. The Liquidity Coverage Ratio (LCR) averaged 205% over the year (the minimum value reached was 182%), well above the statutory limit of 100%. The Net Stable Funding Ratio (NSFR) stood at around 140% during the year, the statutory limit in this case being 100%. The Bank holds a liquidity cushion of approximately €4.4 billion in highly liquid assets (mainly Slovak government bonds), and fulfils all internal requirements relating to the survival period in the event of crisis situations (Survival Period Analysis).

The share of non-performing loans continued to fall

Slovenská sporiteľňa's share of non-performing loans fell from 2.4% in 2020 to 1.8% in 2021. Both retail loans and corporate loans contributed positively to this.

In the corporate loans segment, the restructuring of several non-performing loans with a subsequent return to the standard rating and repayment of some significant non-performing loans contributed substantially to a reduction in the share of non-performing loans. Prevention measures comprising a system of monitoring for early warning signals, effective collection procedures, regular write-offs, and the sale of non-performing loans likewise helped to reduce the share of problem loans.

1.8%

Share of non-performing loans in 2021 (2.4% in 2020)

Some positive news is that almost all legislatively permitted deferrals of loan repayments were ended during the course of 2021, and clients are continuing to repay their debts properly and on time. Nevertheless, given the ongoing covid pandemic, it cannot be ruled out that the share of non-performing loans will deteriorate in the future, and so the Bank is continuing to monitor the effects of the pandemic in order to provide timely solutions for clients, report risks prudently, and mitigate the pandemic's impact on credit risk.

In 2021, the Bank built an efficient and simple process for resolving difficult life situations (apart from the legislatively permitted deferral of instalments), which ensures that the Bank can also manage a possible increase in the number of applicants without pressure on its staffing capacities. For extremely difficult life situations, the Bank has a proven approach through its Social Bank department.

Impact of legislative and regulatory changes

The Bank has formulated an action plan for ESG risk, which is becoming a key area with a significant potential impact on the Bank's business model, governance and risk management. The Bank is continuously harmonising its internal procedures in line with the current EBA discussion paper on ESG risk management for credit institutions and investment firms.

OBJECTIVES FOR 2022

In the coming year, Slovenská sporiteľňa and its clients will once again be greatly impacted by the covid pandemic. The Bank wants to communicate actively with affected clients and to seek with them solutions that ensure the mildest possible financial impact on the client, and ultimately also on the Bank.

In the long run, Slovenská sporiteľňa wants to be the best financial advisor for its clients and a relevant partner for their life and business. It wants to continue to bring modern financial solutions to its retail and corporate clients that will make their lives easier.

Digitalisation has long been one of the Bank's top priorities. Slovenská sporiteľňa will continue to introduce improvements and new functions of online and mobile banking, both in the George retail application and in the Business24 corporate application. When visiting a branch, clients will see further benefits from tablets enabling them to easily and quickly choose the most advantageous products and services from the Bank's growing range. The offer for each client will be tailored as far as possible to the individual, taking account of their current and future financial needs. The Bank thus intends to go on in providing comprehensive financial advice.

Slovenská sporiteľňa wants to focus even more on insurance and investment in cooperation with partners alongside its traditional banking products. These and other activities are intended to make the Bank even more attractive to new and existing clients and to motivate more people to use its services actively.

Banking priorities will continue to include cost optimisation, which Slovenská sporiteľňa will strive to achieve through keeping the operating cost to income ratio low. Digitalisation will provide our clients with increased convenience and, over the long term, lay the groundwork for reducing the Bank's costs. Internal processes and activities will be further streamlined while product and service development will accelerate, which will certainly have a positive effect on customer satisfaction. All the Bank's decisions will take into consideration the acceptable degree of risk.

Slovenská sporiteľňa wants to continue to contribute to the prosperity of society, environmental sustainability, and Slovakia's progress towards a modern, stable, and prosperous country within the European Union through its business activities, the activities of the Social Bank and the Slovenská sporiteľňa Foundation.

FORECAST ECONOMIC AND FINANCIAL SITUATION

Balance sheet set to continue growing

Slovenská sporiteľňa forecasts almost 7% year-on-year growth in the overall balance sheet total in 2022 thanks to continuing growth in client transaction volumes, both in lending and deposit taking. The increase should strengthen Slovenská sporiteľňa's standing in the Slovak banking market. The planned growth in lending should mostly be financed by means of deposits received, and also long-term debt security issues. The Bank predicts that the loan-to-deposit ratio will reach approx. 103% by the end of 2022, with the slight growth compared to 2021 being due to slower growth in client deposits than in client loans. Thanks to the appropriate measures taken, it is realistic to assume that the Bank will meet the indicators and parameters required by the regulator under the CRR (Capital Requirements Regulation) and the CRD (Capital Requirements Directives).

Profitability will remain solid in 2022

At the end of 2022, Slovenská sporiteľňa expects an economic result roughly equal to that of the year before, especially due to the planned release of provisions created in previous years. The year-on-year development in net interest income (adjusted by the one-off positive effect of the TLTRO in 2021) is stable as a result of the growing volume of customer loans in particular, offsetting the declining interest income on loans and on the maturing of the higher interest income securities portfolio. Strong competition and tighter regulation continue to put pressure on interest income. Conversely, the Bank expects higher fee and commission income. Alongside other categories of fee and commission income, increasing revenues from brokering insurance products and mutual fund sales should provide significant help. The Bank foresees stable development in its trading income, despite this return carrying the greatest risk of volatility as it is directly linked to many market factors. Net operating income should increase slightly year-on-year, with the main contributor being the projected growth in fee and commission income, whereas the shortfall in interest income will have the opposite effect. Slovenská sporiteľňa expects operating costs to rise in 2022, due in particular to investments in IT projects, and growth in base salaries. The Bank plans further cost-saving measures in 2022 alongside the continuation of activities begun in 2020 and 2021. Slovenská sporiteľňa's effective management of costs is underlined by a projected cost to revenue ratio of 48.8% in 2022.

Main risks

The main risks and uncertainties facing Slovenská sporiteľňa stem from the ongoing Covid pandemic, and the associated worsened economic situation. Other economic risks on the global and national level include problems in global supply and demand chains, disproportionate growth in energy prices, and geopolitical tensions. Changes to banking legislation in the Slovak Republic and the European Union are a further source of risk, including changes that tighten requirements for balance-sheet structure and lending conditions in a market where persistently low interest rates predominate.

Summary Corporate Governance Report

CODE OF CORPORATE GOVERNANCE

The management of Slovenská sporiteľňa recognises the importance of sound and responsible corporate governance. The basis for applying the principles of corporate governance is the commitment declared in 2003 by Slovenská sporiteľňa's parent company – Erste Group Bank, which included a voluntary undertaking to abide by the Austrian Code of Corporate Governance. The Bank, as a member of the Erste Group, has implemented the Group Governance Policy. This policy reflects the main standards and principles of the OECD Principles of Corporate Governance, as well as those of the Austrian Code of Corporate Governance, which is reviewed and updated annually. Slovenská sporiteľňa, as a member of the Slovak Association of Corporate Governance (SACG), has concurrently undertaken to observe the Code of Corporate Governance in Slovakia issued by that association (hereinafter simply the "Governance Code"). The company takes all its decisions and carries out all its actions in accordance with the principles of the Governance Code and the adopted Group Governance Policy. Application of the principles and rules of the Governance Code is significantly influenced by the fact that Slovenská sporiteľňa has a sole shareholder owning 100% of the shares issued by the company, and its shares are not traded on any stock market. Certain provisions of the Governance Code relating to the exercise and protection of shareholder rights therefore need not be applicable or are applied to the sole shareholder. The codes of governance are publicly available on the websites: www.corporate-governance.at and www.sacg.sk.

Over the course of 2021, Slovenská sporiteľňa complied with all Group Governance Policy rules, as well as the applicable principles of the Governance Code.

Slovenská sporiteľňa has in place a Global Compliance Code establishing a set of ethical standards, principles and binding rules for the Bank and its staff. The responsibility of the Bank and its employees toward clients, and the responsibility of the Bank and its staff to one another are the basis for strict compliance with the adopted rules and standards of the Compliance Code. The Bank applies a policy of zero tolerance to any violation of this code. The Code was drafted in compliance with European Union requirements for harmonising legislation and unifies the internal standards of Slovenská sporiteľňa with the internal standards of the Erste Group. It is also a practical guide on how to apply statutory provisions in day-to-day contact with information that could alter the behaviour of market entities. Furthermore, it is a point of reference for preventing or resolving conflicts of interest between the Bank, its staff, management and customers. The Global Compliance Code sets out the Bank's anti-corruption policy and establishes methods and procedures for reporting suspected cases of corruption or anti-social activities.

Pursuant to requirements regarding the values and objectives of corporate culture, information for clients and transparency, and for improving quality in the provision of investment services and securities trading, the Bank consistently applies measures resulting from the Directive of the European Parliament and the European Council on markets in financial instruments (MiFID II) for strengthening consumer protection in accordance with European legislation. Before providing an investment service, the Bank furnishes clients with a document giving key information on structured retail investment products and insurance-based products.

Other key documents strengthening customer protection in the banking environment include the European Agreement on a Voluntary Code of Conduct on Pre-Contractual Information for Home Loans. This has been adopted at the level of European consumer organisations and the European Credit Sector Associations.

Over and above legal obligations in this area, Slovenská sporiteľňa has adopted the Erste Group Code of Conduct, which establishes common values and principles for the whole financial group. It is a set of binding rules and recommendations affecting the day-to-day business activities of all the Bank's employees. The Code defines what is permitted in relation to customers, the company, employees and the shareholder and sets the standard for the Bank's conduct as a socially responsible company, which is obliged, in all its activities, to act responsibly, with respect and without undue risk. It is an important instrument of quality assurance in internal and external environments because quality means support for proper, trustworthy relationships with each other and with relevant stakeholders.

The Bank has adopted a complaints management policy in accordance with the methodological guidelines of the Financial Market Supervision Unit of Národná banka Slovenska. It has designed a unified working procedure, specified the competences and responsibilities of the units involved in complaint management and set communication standards to ensure the quick, effective and reliable resolutions that increase customer satisfaction and loyalty. Slovenská sporiteľňa is one of the few Slovak banks to have created the position of Ombudsman to protect customers' interests as consumers and users of financial services in accordance with European rules.

Slovenská sporiteľňa and its employees follow the principles of competition law without reservation and have zero tolerance for agreements that restrict competition or abuse a dominant position in the market. Compliance with competition rules is of the utmost importance to the Bank. Every member of the Bank's management at every level, and every Bank employee, bears responsibility for compliance with competition rules. A specific person appointed to a specialised position is responsible for the overall performance and coordination of activities related to the protection of competition.

In its financial and investment operations, the Bank takes account not only of economic perspectives but also social, ecological and ethical criteria under the umbrella of "equator principles". This approach is applied in all matters with environmental and social impacts and in the administration and management of any activities in the area of financing to ensure all projects financed by the Bank are socially and environmentally sustainable and that all the Bank's financial activities comply with applicable regulations and international best practices. From the environmental perspective, the Bank must consider the protection and conservation of biodiversity, the sustainable management and use of renewable natural resources, the use and management of hazardous substances, pollution prevention and waste minimisation. Issues considered in the evaluation of social and ethical criteria applicable to projects financed by the Bank include child labour, the elimination of all forms of forced and obligatory labour, the prevention of discrimination in employment, the ensuring of a safe working environment, health protection etc.

As Slovenská sporiteľňa meets definition of a subsidiary undertaking included in the consolidated management report of the Erste Group, obligation to report non-financial information in accordance with the Directive 2014/95/EU of the European Parliament and of the Council (NFRD directive) is fulfilled by the parent's reporting. Obligation arising from the Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFRD regulation) was fulfilled by publishing the relevant documents on the Bank's website.

RELEVANT INFORMATION REGARDING MANAGEMENT AND ORGANISATION OF THE COMPANY

The management structure of Slovenská sporiteľňa, as well as that of its parent company – Erste Group Bank, comprises a Supervisory Board and Board of Directors. The Supervisory Board is the Bank's supreme control body. It supervises the activities of the Board of

Directors and the conduct of the Bank's business activities. It regularly reports to the General Meeting on its activity. The Board of Directors is the Bank's statutory body, managing its activity and acting on its behalf. It decides on all the Bank's affairs not reserved to the Bank's General Meeting or Supervisory Board under acts of general application or the Bank's Articles of Association.

The basic and fundamental rules of the Bank's operation and existence are set out in the Articles of Association of Slovenská sporiteľňa, a.s. (the "Articles"). Any changes to the Articles must be approved by the General Meeting. Building on the mandatory requirements applicable to every joint-stock company under the provisions of Act no. 513/1991 Coll., the Commercial Code, and Act no. 483/2001 Coll. on banks ("Act on Banks"), the Articles govern the Bank's organisation and system of management, relations and cooperation between the statutory body, Supervisory Board, the Bank's officers, Internal Audit Division and the Bank's committees. In addition to the activities set out in the Articles and entered in the Commercial Register, the Bank may, following approval by Národná banka Slovenska, also carry out non-banking activities related to the operations of the Bank and companies belonging to the consolidated and sub-consolidated group of Erste Group Bank AG. These activities, in accordance with the Act on Banks, are not entered in the Commercial Register.

The company's organisational structure, the basic principles of its organisational arrangement, and the responsibilities, activities and roles of the company's organisational units are described in the Slovenská sporiteľňa Organisational Code. The Organisational Code is defined in accordance with the Commercial Code, the Act on Banks, the Securities Act, the Articles and other acts of general application, and is binding on all company employees.

The company performs its activities through its organisational units, comprising the headquarters, branch network, and other units established under the Bank's internal regulations. Responsibility for the creation, implementation, coordination, monitoring and control of the Bank's business objectives lies with the Board of Directors. In compliance with acts of general application, the Bank maintains within its organisational structure a separation between activities and powers and responsibilities in the following areas:

- risk management and banking activities;
- lending and investment business, and monitoring of risks to which the Bank is exposed;
- monitoring of risks arising from conducting banking activities with persons with a special relationship to the Bank.

In 2021 the Bank continued to apply the principle of separation between risk monitoring and banking activities at all levels of management including the highest. The Corporate Credit Risk Management, Retail Credit Risk Management, Strategic Risk Management and Compliance and Operational Risk Management departments must not engage, and during 2021 did not engage, in any banking, lending or investment business. Competence for authorising transactions with persons with a special relationship to the Bank is exercised by the Board of Directors of the company in accordance with the Act on Banks and the Organisational Code.

Slovenská sporiteľňa has not established any units abroad and does not perform banking activities outside Slovakia.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal control system

Slovenská sporiteľňa has in place an internal control system with clearly defined principles and standards. Effective internal control is the basis of sound risk management; it safeguards the Bank's assets, helps reduce or prevent the potential occurrence of serious errors or operational risk events, and helps in their timely detection.

Slovenská sporiteľňa's internal control system has the following objectives:

- to prevent and detect errors and any inefficient or wasteful use of resources;
- to prevent and detect abuses and fraud;
- to ensure the effectiveness and efficiency of banking operations;
- to ensure the integrity, accuracy, timeliness and reliability of information;
- to raise the quality of record-keeping;
- to monitor compliance with laws, regulations and internal policies.

The Bank's Board of Directors is responsible for ensuring that an appropriate and efficient internal control system is implemented and that it is regularly monitored, evaluated and updated. Each organisational unit is responsible for practical implementation and compliance within its remit. Senior managers are responsible for internal control at the level of the executive, and may not delegate this responsibility

The Bank's employees are responsible for their work and must abide by the principles of the internal control system. They perform their work in accordance with applicable laws and the company's internal guidelines. Moreover, they comply with competences related to the approval and authorisation for their work. Internal control is a part of their work and responsibilities. The results of each inspection are documented, and the responsible employees oversee the remediation of shortcomings and the implementation of measures identified in their findings.

An independent component of the internal control system is the Internal Audit Division, which reports directly to the Bank's Supervisory Board. The CEO is responsible for its establishment and its operational functioning. Internal Audit is fully independent from all the Bank's activities. Its independence is manifested in all stages of its work, particularly during identification and analysis of risks, the planning and preparation of audits, including the selection of a review and evaluation method, drafting and submission of audit reports, and evaluation and follow-up of measures taken.

In accordance with applicable legislation, internal audit review and evaluation are also applied to outsourced and insourced activities, to the implementation of and compliance with remuneration principles, information systems security, etc. The Supervisory Board approves the audit strategy and annual audit plan after it is approved by the Board of Directors and recommended by the Audit Committee, an advisory body to the Supervisory Board. The Audit Committee also approves the Internal Audit Statute, oversees the independence and objectivity of the Internal Audit Department, and regularly monitors and tests its activities and effectiveness.

The Bank pays particular attention to measures for protecting the Bank against money laundering, terrorist financing and financial fraud. Their implementation is a responsibility of the Compliance and Operational Risk Management department under the management of the Compliance officer. Its other responsibilities include the application of preventive mechanisms in accordance with sanction policies and measures, and the detection and correction of fraudulent conduct. Slovenská sporiteľňa upholds the principle of zero tolerance for money laundering and terrorist financing, with a strong emphasis on applying the "know your client" principle. In keeping with its ethical values, the Bank places importance on transparency in its relationships with both clients and suppliers. It applies zero tolerance of corrupt behaviour. To this end, the Bank has adopted a gifts policy, laying down rules for the acceptance and giving of gifts in full compliance with Slovak law, Erste Group principles, and international standards. In order to properly manage operational risk in this area, the Bank also provides its employees with the opportunity to lodge anonymous reports (whistleblowing) of breaches of rules or principles, which includes the creation of an independent and anonymous channel for reporting corrupt or anti-social behaviour, which employees have access to 24 hours a day.

Another role of internal control is to monitor and evaluate the timely implementation of legislation into internal bank procedures. Regulatory compliance is supervised by the Regulatory Compliance Officer, who is responsible for ensuring that the Bank implements in its policies, regulations and processes in a timely manner all relevant laws, their updates, and the regulations and recommendations of the competent Slovak and European regulatory institutions.

Ensuring the required level of cyber security in relevant information systems and networks is a prerequisite for the provision of basic banking services. The Bank's cyber security is governed by internal guidelines and working procedures that comply with Erste Group principles and international standards. The Security Department is responsible for implementing and monitoring the level of security in the Bank. The rising level of digitalisation also leads to an increase in the level of threats in cyberspace. The Bank is continuing its long-term investments in the prevention, detection and reaction to security incidents in order to prevent their occurrence as well as minimise the potential impact. Regulators are also responding to increased threats through tightening obligations, and the Bank makes appropriate efforts to meet them in line with legal requirements from year to year. Compliance with them is audited by several regulatory authorities and auditors. In 2021, the Bank successfully completed an audit in accordance with the requirements of Act no. 69/2018 Coll. on cyber security and on the amendment of certain acts.

Risk management and control system

Slovenská sporiteľňa has, in accordance with applicable Slovak legislation, a risk management system in place that is based on a clearly defined risk management strategy, the Bank's risk appetite and the Bank's ethical values. The Bank has appointed a Chief Risk Officer on the level of the Board of Directors. Within its competence, the Board of Directors has established a Risk Management Committee responsible for compliance with and monitoring of the effectiveness of the risk management system and the periodic review of its effectiveness and adequacy. The effectiveness of risk management is overseen by the Supervisory Board, or the Supervisory Board Risk Management Committee. Within its organisational structure, the Bank keeps trading and investment activities strictly separated from risk management. The organisational units for strategic risk management, corporate credit risk management, retail credit risk management, compliance & operational risk management and legal services report to the member of the Board of Directors responsible for the performance of the risk management function (Chief Risk Officer).

The risk management strategy of Slovenská sporiteľňa defines the fundamental principles and objectives of risk management, and describes the management process, responsible persons and competences for risk identification, monitoring, controlling and management. It also defines the Bank's policy and positions in the area of individual types of risk to which it is or may be exposed. Procedures and measures for mitigating or eliminating individual types of risk are set out in the Bank's internal guidelines and published for the Bank's staff via an internal information channel.

The primary objective of the Bank's risk management is to achieve a sustainable ability to identify all significant risks to which it is exposed, to evaluate and quantify the potential impact of risks on the value of the Bank's assets and to have in place policies and internal regulations enabling efficient risk management. The Bank has a process prepared for managing every identified risk. The effectiveness and adequacy of the risk management system in place is reviewed with reference to the adopted strategy upon each major change in the risk management process, or in any risk-related activity, at least once a year. Furthermore, when developing and evaluating scenarios of comprehensive stress testing, the Bank considers all material risk types (credit, market, operational and liquidity risks, etc.). In accordance with statutory and regulatory provisions, the Bank continuously evaluates and maintains its ability to bear risk in the changing economic and market environment in which it operates. The risk management system in place, including the monitoring of the applicable limits for each risk, enables the Bank to manage its risk profile in a responsible manner and to provide and secure financing both under normal conditions and in the case of major changes.

Within the overall risk management strategy, the Bank has developed its own system for the Internal Capital Adequacy Assessment Process (ICAAP). The assessment system takes into account all real market risks to which the Bank is exposed, and which must be continuously covered by its own internal capital. The limits and measures for covering unexpected losses correspond to the nature, scope and complexity of the banking activities in accordance with the Bank's adopted business strategy. The Bank has implemented the ICAAP framework and standards, including the RAS (Risk Appetite Statement) methodology, in accordance with the Erste Group's policy, and it takes them into account in managing and setting business objectives.

In accordance with statutory provisions, the Bank has a Recovery Plan prepared. The plan describes each risk type, the potential failure points for the Bank, and its scenarios for recovery and identifies critical functions and the main strategies and procedures to be implemented in unexpected major critical situations. Because the Bank is part of the Erste Group, the local Recovery Plan is, in accordance with European legislation, a direct part of the Group Recovery Plan and is designed to enable the Bank to restore its financial position in such circumstances without external assistance. The Bank's Recovery Plan is updated annually or ad hoc in response to changes in the market, and the Bank's Supervisory Board is kept regularly informed of it.

INFORMATION ON THE COMPOSITION AND ACTIVITIES OF THE COMPANY'S BODIES AND THEIR COMMITTEES

The rules for the appointment and dismissal of members of the company's bodies are set out in Slovenská sporiteľňa's Articles, which are approved by the Shareholders' General Meeting pursuant to the provisions of the Commercial Code. In accordance with the proper execution of the monitoring and supervisory function of the Supervisory Board, the election and dismissal of members of the statutory body falls within the competence of the Supervisory Board. The Supervisory Board elects the members of the Board of Directors subject to prior approval by the European Central Bank, which supervises Slovenská sporiteľňa as a systemically important bank, and as recommended by the Nomination Committee of the Supervisory Board. The appointment and recall of Supervisory Board members, other than representatives elected and dismissed by employees, lies in the competence of the General Assembly, following prior approval by the European Central

Bank. The assessment as well as the reassessment of the suitability of the members of the Supervisory Board, the Board of Directors and persons holding key positions is carried out by the Nomination Committee of the Supervisory Board in accordance with the guidelines issued by the European Banking Authority in EBA/GL/2017/12 on the assessment of the suitability of members of the management body and key function holders and the Methodological Guideline of the Financial Market Supervision Unit of Národná banka Slovenska of 5 January 2018 no. 1/2018 on the demonstration of the competence and suitability of persons nominated to functions under Section 7(2)(e) and Section 8(2)(c) of the Banking Act. The Bank regularly reviews and assesses whether members of the Board of Directors, the Supervisory Board and key employees meet the eligibility criteria laid down in the guidelines.

An important criterion in the process of selecting and appointing members of the Bank's top management is not only knowledge, but also living by the values and respecting the approach both inside and outside the company. Slovenská sporiteľňa is an innovative and responsible bank that believes in people, ideas, and enterprise and is committed to fulfilling its mission. The key values for the Bank, such as commitment, innovation and responsibility are therefore thoroughly verified and tested in the case of candidates for top management positions at the Bank alongside their expertise and practical experience. Persons holding key positions at the Bank must be able to perform their duties properly and, as a whole, must support and contribute to an effective management and a balanced manner of decision-making in the Bank within their defined competences. The proper and responsible composition of the team of top managers creates all the conditions and pre-requisites that ultimately affect decision-making at the highest competence level of the Bank, and thereby also affecting the very security and health of the institution and the banking sector as such.

Appointments to the Bank's Supervisory Board and Board of Directors also take account of the criterion of gender diversity. Gender balance within the meaning of the EU CRD IV regulations is reflected in Erste Group policies and guidelines. It is the Bank's ambition that by 2023 at least 33% of top positions (board of directors and management of the immediate lower level also called senior management) should be held by women that this share should rise to 40% by 2025. The target share of women in the top positions was 29% for 2021. As of 31 December 2021, the share stood at 27%. The diversity indicator for gender balance in the board of directors and management positions is one of the evaluated performance indicators in the annual individual targets of the Chairman of the Board of Directors.

The evaluation criteria applied in top management appointments are regularly updated to reflect changing conditions and knowledge from practice. In view of the continued consistency of the appointment criteria for individual members of the Board of Directors with their actual assessment, the Nomination Committee did not recommend the Supervisory Board and the sole shareholder of the SLSP to change the composition, structure and size of the Supervisory Board, or its individual members in 2021. Following a review of the principles for the selection and appointment of top and senior management (including persons holding key functions), the Nomination Committee recommended that the current version of the principles remain unchanged for another year pending further review.

General Meeting

Pursuant to statutory provisions, the Shareholders' General Meeting is the company's supreme body. It is held at least once a year, and the shareholder participates at it in person, or by means of an authorised representative. The extent of the competence of the Slovenská sporiteľňa General Meeting is defined in the Articles. A two-thirds majority of all shareholders is required for a change to the Articles, in accordance with applicable legislation. The General Meeting has the competence to decide on share capital increases or decreases, to elect or dismiss members of the Supervisory Board and other bodies stipulated in the Articles, with the exception of the Supervisory Board Members elected and recalled by employees, to approve the company's ordinary and extraordinary individual financial statements, to decide on the distribution of profits or settlement of losses and directors' fees, to decide to wind up the company or change its legal form, to have the Bank's shares removed from trading on the Stock Exchange, and to decide that the Bank will cease to be a public joint-stock company. Slovenská sporiteľňa has a sole shareholder, which can take decisions either at the General Meeting or in the form of a sole shareholder decision, which replaces the effects of the General Meeting. The Bank complies with statutory provisions related to the protection of shareholder rights, with emphasis on the timely provision of all relevant information on the state of the company, and due process in the convening, voting and decision-making of the Shareholders' General Meeting.

All information on the General Meeting's activities, its powers, a description of shareholders' rights and the procedure for their application are set out in the Articles, the full text of which is held at the Bank's headquarters and is also available on its website.

In 2021, the Bank had one ordinary General Meeting, one extraordinary General Meeting, and one General Meeting in the form of a decision of the sole shareholder. At the General Meeting on 24 March 2021, the shareholder approved the annual individual and consolidated financial statements, the profit distribution, and the company's Annual Report for 2020. The General Meeting also approved the appointment of PricewaterhouseCoopers Slovensko, s.r.o. as the external auditor to audit Slovenská sporiteľňa's financial statements for 2021. On the same day an extraordinary General Meeting was also held, which decided to dissolve the 100% subsidiary of the Bank S Slovensko, spol. s.r.o. by way of a merger with the Bank. Slovenská sporiteľňa became the legal successor of the company. On 24 June 2021, a General Meeting was held in the form of a decision of the sole shareholder, which approved an update to the Articles of Association of Slovenská sporiteľňa. The essence of the amendments to the Articles of Association was the harmonisation of their text with currently applicable legislation.

Supervisory Board

The Supervisory Board is the Bank's supreme control body. The Articles stipulate that it may have three to six members, two thirds of whom are elected by the General Meeting with the remainder being elected by employees of the Bank. Membership on the Supervisory of Directors may not be deputised. The Supervisory Board oversees the Board of Directors and the Bank's business operations. Meetings are normally held on a quarterly basis. The competences of the Supervisory Board include supervising the Bank's compliance with acts of general application, the Articles and decisions of the General Meeting, scrutinising the Bank's financial statements and making proposals for the distribution of profits or the settlement of losses. The Supervisory Board regularly examines reports on the state of the Bank's business and the balance of its assets, monitors the Bank's risk management position, deliberates on the report on the remuneration system, submits its opinions and statements, recommendations and proposals for decisions to the General Meeting and Board of Directors, and assesses information from the Board of Directors regarding the Bank's principal business objectives. It pre-approves the establishment of legal entities by the Bank and the appointment of the Internal Audit Director; it elects members of the Board of Directors, its Chairman, etc. The Supervisory Board informs the General Meeting of its activities by way of regular reports. The Supervisory Board may establish committees, define the scope of their activities and approve their statutes.

Composition of the Supervisory Board and term of office

Slovenská sporiteľňa's Supervisory Board has six members. Pursuant to the Articles, the term of office of members of the Board of Directors is five years. In 2021 the Supervisory Board acted in the following composition:

Supervisory Board Member	Year of birth	Profession	Date of first election	End of term
Stefan Dörfler (chairman)	1971	Board member	14.10.2019	14.10.2024 (1)
Jan Homan (vice-chairman)	1947	CEO	4.5.2012 7.8.2017	4.5.2017 7.8.2022
Paul Formanko (2)	1965	Bank analyst	4.2.2019	4.2.2024
Vazil Hudák (2)	1964	Company director and financial consultant	11.11.2020	11.11.2025
Alena Adamcová (3)	1967	Bank advisor	2.11.2016	2.11.2021
Beatrica Melichárová (3)	1957	Trade union officer	5.6.2003 7.5.2019	19.12.2018 7.5.2024(1)

[1] *termination of office as of 31 December 2021 by his own decision*
[2] *independent member of the Supervisory Board*
[3] *member of the Supervisory Board elected by employees*

In accordance with the requirements laid down by guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), two members of the Supervisory Board satisfied the criteria of independence during performance of their function.

Committees and advisory bodies of the Supervisory Board

In line with statutory and regulatory requirements and corporate governance principles, the Supervisory Board has established the following committees:

Audit Committee

The Audit Committee oversees the financial reporting process, the effectiveness of the internal control system (including IT security), compliance with statutory requirements, the effectiveness of risk management, internal audit activities. Additionally, it analyses recommendations made by external and internal auditors. Based on a proposal by the Board of Directors, it recommends an external auditor for the company to the General Meeting.

Credit Committee

The Credit Committee, in accordance with the Bank's Competence Rules, approves credit business (new business, adjustment of the terms of already-approved credit, restructuring and recovery of receivables) with corporate clients, municipalities and retail clients. It does not approve loans or guarantees for persons with a special relationship to the Bank, which are approved at the level of the Board of Directors.

Remuneration Committee

The Remuneration Committee is established under the provisions of Act no. 483/2001 on banks, establishing the rules for prudent management of banks and securities dealers. The Committee independently assesses the remuneration principles of selected categories of Bank employees. It focuses primarily on the mechanism for balancing all risks, liquidity and capital, and on compliance with the remuneration system, with the aim of achieving long-term prudent management of the company. Implementation of the remuneration principles is subject to annual inspection by Internal Audit.

Nomination Committee

This Committee was established by the Supervisory Board as an advisory body to fulfil its responsibilities related to the nomination of members of the Bank's Board of Directors and Supervisory Board. It was established under the Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12). It oversees the candidate selection process, the scrutiny and reappraisal of candidates' suitability with reference to the characteristics, skills, knowledge and experience required for the relevant positions under the Act on Banks and applicable rules of the European Banking Authority.

Risk Management Committee

The Committee was established by the Supervisory Board in accordance with the EBA's Guidelines on internal governance (EBA/GL/2017/11). The Committee is an advisory body to the Supervisory Board in fulfilling its responsibilities related to the Bank's risk management. It supervises the implementation of capital and liquidity management strategies as well as all other related risks such as market, credit, operational (including legal and IT risks) and reputational risks, to assess their adequacy with reference to the Bank's risk appetite and approved risk management strategy.

The committees of the Supervisory Board usually meet once per quarter and they are governed by statutes that define their competences and powers. The committees are composed of individual members of the Supervisory Board, and their leadership satisfies the requirement of the Guidelines on internal governance (EBA/GL/2017/11) that an independent member of the Supervisory Board should chair the Remuneration Committee, the Nomination Committee and the Risk Management Committee.

Activity of the Supervisory Board and its committees in 2021

In 2021, the Supervisory Board met four times and made four decisions by circular resolution. The Supervisory Board discussed documents and approved resolutions on an ongoing basis in accordance with its competences and responsibilities in the area of control activity. It devoted particular attention to regular information on the company's economic development and management. It discussed the financial statements for 2020, and proposed to the Bank's General Meeting the distribution of profit for 2020. At its meeting, it discussed the annual reports of its advisory committees, in the area of the application of the principles of remuneration policy, evaluation of the suitability of the members of the Supervisory Board and the Board of Directors, or in the area of risk – the report of the Chief Risk Officer for the year. Based on the recommendation of the Remuneration Committee, the Supervisory Board approved the remuneration of the members of the Bank's Board of Directors as a component of the variable part of their remuneration. Together with its strategic outlook, the Bank approved planning documents for 2022 as well as the internal audit activity plan to 2025. It updated the statutes of its advisory bodies, namely the Remuneration Committee and the Risk Management Committee.

During the course of the year, the Audit Committee of the Supervisory Board met four times. Meetings focused mainly on the activities of and cooperation with the Bank's external auditor in the field of statutory audit. Based on legal requirements, the committee evaluated and supervised the independence of the statutory auditor, approved the purchase and performance of non-audit services provided by the auditor to the Bank, discussed the report on the company's statutory audit and financial statements for 2020, which it recommended for approval by the General Meeting, it approved the plan of and interim reports on the external statutory audit of 2021. As part of the Report, and in cooperation with the external auditor, it recommended measures to the Bank's management for improvement in audited fields. Through regular reports, the Committee monitored compliance and operational risk, including the Bank's own anti-money laundering and anti-terrorist financing programme, cyber security aspects and the results of internal audit activities.

The Supervisory Board's Risk Management Committee met four times in 2021. In accordance with its competence, it discussed the updated Recovery Plan of Slovenská sporiteľňa. On a quarterly basis, it discussed reports on the Bank's risk management, the Bank's current risk profile, the development of capital adequacy and the level of risk-weighted assets in comparison with the limits set in the RAS (Risk Appetite Statement), and the indicators of the Bank's Recovery Plan. As part of the regular annual Internal Capital Adequacy Assessment Process (ICAAP) and in accordance with Group Policy and regulatory requirements, the Committee discussed the assessment results regarding the severity of all potential risks that the Bank faces.

In its three ordinary meetings and five meetings by circular resolution, the Remuneration Committee approved mainly documents concerning an update to the remuneration policy, the setting of the main banking criteria, and documents evaluating performance indicators for members of the Board of Directors. It also approved a list of material risk takers who are subject to special remuneration principles due to this status under the Banking Act.

The Nomination Committee of the Supervisory Board worked in two areas falling under its competence. The first was the regular annual evaluation of the "fit & proper" suitability of members of the Board of Directors and the Supervisory Board, together with an assessment of the structure, size, composition, and activities of both bodies pursuant to the Suitability Policy. The second area of the committee's activity was the assessment of nominations for vacant positions of members of the Supervisory Board and the Board of Directors. During the course of 2021, the Committee evaluated the nominations of a total of eight candidates for the Supervisory Board before submitting their candidacy for approval in the European Central Bank. Seven of the candidates were from the ranks of employees.

Board of Directors

The company's statutory body is the Board of Directors. Its members, including the chairman, are elected by the Supervisory Board. In accordance with the Articles, the Chairman of the Board also serves as the CEO; the Deputy Chairman of the Board also serves as the first Deputy CEO; other members of the Board of Directors concurrently serve as Deputy CEOs.

The Board of Directors performs its activities on the basis of and in compliance with its rules of procedure. Meetings of the Board of Directors are held at least once a month. Its responsibilities and competences are defined in the Articles. It decides on all the Bank's affairs not reserved to the General Meeting or the Supervisory Board under acts of general application or the Articles. The Board of Directors is responsible for efficient and proper corporate governance, appropriately taking into account the interests of the shareholder, employees, clients, as well as public interests. It takes each decision in accordance with applicable legislation, the Articles, as well as internal regulations and guidelines. The Board of Directors decides on the Bank's strategic objectives and business plan, as well as that of its subsidiaries, its organisational structure, remuneration system and staff competences at each organisational grade, the company's internal control system, the provision of loans to persons with a special relationship to the Bank, the issuance of selected types of securities and outsourcing of selected activities, internal guidelines required under acts of general application or under Erste Group rules. In addition, it also takes decisions on the company's policy for specialised areas, such as business activities and terms, risk management, including maintaining an effective system of risk management, compliance and protection of the Bank against money laundering and terrorist financing. With the prior consent from the Supervisory Board, the Board of Directors approves the Internal Audit Division's plan of activities, and the Internal Audit Division Director's salary conditions.

Composition of the Board of Directors and terms of office

The Board of Directors of Slovenská sporiteľňa has five members. Pursuant to the Articles, the term of office of members of the Board of Directors is five years. In 2021, the Board of Directors worked in the following composition:

Board Member	Year of birth	Date of first election	End of term
Peter Krutil (Chairman)	1968	17. 12. 1998	4. 1. 2026
Zdeněk Románek	1976	15. 6. 2015 29. 6. 2020	15. 6. 2020 29. 6. 2025[1]
Pavel Cetkovský	1969	26. 1. 2018	26. 1. 2023
Milan Hain	1962	1. 7. 2018	1. 7. 2023
Norbert Hovančák	1974	1. 10. 2019	1. 10. 2024

[1] *termination of office as of 30 November 2021 by his own decision*

No vice-chairman of the Board of Directors was appointed in 2021.

Division of competences and responsibilities of Board Members

Board Member	Area of competence as per organisational structure
Peter Krutil (Chairman)	Strategy & Customer Experience, Brand HUB, Employee experience, and Balance Sheet Management.
Pavel Cetkovský	Accounting & Controlling, Properties and Facility Management, Strategic Risk Management, Corporate Credit Risk Management, Retail Credit Risk Management, Compliance & Operational Risk Management, and Legal Services. He is the Chief Risk Officer, Chief Environmental Officer and Chief Sustainability Officer for Slovenská sporiteľňa.
Zdeněk Románek (until 30 November 2021)	Branch Network Management, Client Prosperity, Digital & Daily Banking, Wealth Management & Bancassurance, and Social bank. He is the person responsible for the area of financial intermediation.
Norbert Hovančák	Treasury, Large Corporate Clients and Structured Finance, Real Estate, Corporate Clients, Financial Solutions for Corporates, Client Prosperity B2B. From 1 December 2021 he took over the areas formerly under the responsibility of Zdenek Románek, namely Branch Network Management, Client Prosperity, Digital & Daily Banking, Wealth

	Management & Bancassurance, and Social bank.
Milan Hain	Security, Shared IT Services, Data management, IT Operations, Banking Services, Retail Processing Centre, Architecture, Change Management & Project Management, and Financial management for IT Services Team.

Committees, advisory bodies of the Board of Directors and specialised functions

The Board of Directors may establish advisory committees, to which it can delegate tasks as well as its decision-making and approval powers in certain areas. Committees are established via a resolution that must contain the date of the committee's establishment, its competences, number of members, composition, designation of the chairman from the committee members and other particulars determined by the Committees' Statute. At any time, the Board of Directors may, by resolution, change a committee's competences or its composition, or cancel it. During 2021, the Bank had the following committees:

Assets and Liabilities Committee

The committee assesses and approves the management and control process for the Bank's financial flows and its asset and liability structure to achieve an optimal balance between the Bank's profitability and its exposure to market risks. It evaluates the Bank's current position in terms of liquidity, market risks, capital adequacy and fulfilment of the planned balance sheet structure, and it determines the securities portfolio strategy. The competences of the committee also include the Bank's liquidity risk management. To this end, the committee has established a separate advisory committee for operating liquidity management.

Operating Liquidity Management Committee

This committee analyses and evaluates the Bank's liquidity position. Where necessary, the committee submits proposals to ALCO regarding liquidity management.

Credit Committee

The Credit Committee, in accordance with the Bank's Competence Rules and Lending Policy, approves lending business (new business, amendment of terms of already-approved business, restructuring and recovery of receivables) with corporate clients, municipalities and retail clients. It does not approve loans and guarantees for persons with a special relationship to the Bank, which are approved by the Board of Directors.

Product Pricing Committee

The Product Pricing Committee sets the prices at which the Bank and its subsidiaries sell products to customers. It approves the Bank's product pricing strategy (interest and fees), receives information on developments in the structure of the Bank's products and subsidiaries' products together with their market position.

Business Committee

The committee analyses business results and adopts measures to ensure that the Bank's business plan is fulfilled. It ensures the implementation of the marketing strategy of the group, the Bank and its subsidiaries. It approves the annual marketing communication plan and its individual campaigns; it allocates costs to campaigns and evaluates their effectiveness. It also considers issues relating to digitalisation of the Bank and electronic sales channels.

Operational Risk & Compliance Committee

The committee defines the strategy and processes for operational risk management and sets the degree of acceptability and levels of tolerance for operational risk. It sets measures for reducing or mitigating operational risk, including compliance risk. It defines procedures and strategy for reducing or mitigating money laundering risk, and measures for reducing the number of frauds and for mitigating their impact.

Risk Management Committee

The committee's responsibility is to maintain an effective risk management system, to monitor and implement the risk management strategy and procedures pursuant to §27(1) of the Act on Banks. Based on regular review of its effectiveness and adequacy, the committee proposes adjustments to the risk management system, taking account of the Bank's ability to bear risk in a changing economic environment. It approves changes to the IRB approach as defined by the NBS, as well as internal models in the risk management process, ICAAP principles, including the RAS (Risk Appetite Statement) methodology and stress testing, and it ensures that ICAAP principles are implemented in the Bank's management and its business objectives. The committee coordinates the preparation of scenarios for comprehensive stress testing and approves the scenarios, taking into consideration all material types of risk, including credit, market, operational and liquidity risk, and their evaluation. The committee provides support and information to the Board of Directors and Supervisory Board concerning risk identification, analysis, monitoring reporting and management.

Models Committee

The Board of Directors delegates to the Models Committee powers related to the development, validation, monitoring and approval of local credit and non-credit models, or the use of group models related to risk.

Crisis Committee

The committee's role is to assess the situation in the event of an impending crisis and to manage the Bank's procedures at a time of crisis. The Crisis Committee takes decisions and determines responsibilities in a time of crisis. Its task is to regularly monitor and evaluate the situation, to coordinate communication activities and to manage the Bank's procedures for stabilising and calming a crisis.

Committee on Investment and Treasury Products

The committee participates in the approval of financial instruments created by the Bank or third parties as part of the approval process for investment products, as well as treasury products that may be traded on the banking book or trading book or offered to clients. If critical events occur that may have a significant impact on the risk level of investment products or treasury products, the committee decides on remedial measures to reduce the risk.

Local Sustainable Finance Committee

This committee oversees the sustainability of financing and is chaired by the Chief Environmental Officer. It conducts regular (at least semi-annual) analyses of the Bank's sustainable financing and, if necessary, proposes measures to be taken in connection with sustainable financing. It reviews proposals and initiatives for sustainable assets and approves framework conditions for green, social and sustainable issues of bonds.

Specialised functions

The Board of Directors, in accordance with the defined applicable legislation, appoints persons to bear responsibility for specific areas and activities. Slovenská sporiteľňa appoints responsible persons for the following specific functions:

Compliance Officer ensures the fulfilment of tasks under the programme of Slovenská sporiteľňa's own activity against money laundering and terrorist financing. The compliance officer reports directly to the member of the Bank's Board of Directors responsible for risk management. In the absence of the Compliance Officer, the responsibilities and competences are taken over by the designated **Deputy Compliance Officer**.

Data Protection Officer (in accordance with the GDPR) assesses, prior to the processing of personal data at Slovenská sporiteľňa, whether there is any potential danger of infringement of data subjects' rights and freedoms. The responsibilities and competences of this officer are detailed in the guidelines on "Ensuring Personal Data Privacy".

The **persons responsible for specific areas in financial intermediation** monitor compliance with the obligations of employees performing activities in accordance with the Act on Financial Intermediation and Financial Advice, especially in deposit taking, lending, insurance, and reinsurance.

The **persons responsible for MiFID** (Markets in Financial Instruments Directive) monitor and evaluate the effectiveness of measures and procedures to ensure the Bank's provision of investment services complies with its obligations as a securities dealer under the Securities Act. The responsibility is divided into two areas. The first is the definition of operational controls, checking their fulfilment, reporting and organisation in this area and MiFID II implementation. The second person is responsible for the development, methodology and administration of investment products and related guidelines, and for customer care and related control activities.

The **FATCA Officer** is responsible for the implementation of the American Foreign Account Tax Compliance Act (FATCA) and compliance with its provisions.

The **BCM Officer** (Business Continuity Management) is responsible for managing the Bank's policy on operational and business continuity and the implementation of rules in this area.

The **Chief Risk Officer** is responsible for the implementation of the Bank's risk management system and monitoring of its effectiveness.

The **Consumer Protection Contact Person** coordinates and implements consumer protection requirements into the Bank's systems, processes and products. They also coordinate and implement requirements from the supervisory authorities for consumer protection.

The Chief Environmental Officer and **Chief Sustainability Officer** implements an environmental concept of sustainability into corporate strategy, manages environmental protection and defines rules for combatting climate change in the framework of the within the Bank.

The **Diversity Officer** implements the Erste Group's rules and principles on diversity at the local level; responsible also for local initiatives promoting diversity and solutions for diversity and inclusion.

The **Person responsible for the protection of competition** provides for and coordinates the Bank's activities relating to the protection of competition and compliance with fair competition rules including rules on anti-competitive conduct and prohibited agreements.

The **Safeguarding Officer** is responsible for establishing and regularly reviewing measures and procedures for the protection of clients' funds and financial instruments, their separation and proper record keeping, including prevention of their unauthorised use; as well as responsible for compliance with related requirements under the act on securities and investment services and MiFID II.

The **Regulatory Compliance Officer** is responsible for ensuring compliance with legislation through the Programme for legislative compliance control, whose aim is to mitigate risks connected with non-compliance with legislation. They gather, monitor, assess and report information to the competent directors and heads of units, and the members of the Board of Directors and Supervisory Board who are authorised to adopt decisions and appropriate mitigation measures.

The **Cyber Security Manager** is responsible for designing, adopting and enforcing security measures at the Bank. They stand outside the management structure for the operation and development of information technology services and at the same time meet the knowledge standards required for performing this function. In the event of their absence, their deputy takes over their responsibilities and competences.

Supervisory and other board memberships of members of the Board of Directors

The Act on Banks regulates the holding of functions in the management and supervisory bodies of other companies by members of a statutory body. In 2021, members of the Board of Directors of Slovenská sporiteľňa acted in statutory and similar bodies of Slovak companies or interest groups in accordance with the Act on Banks, as follows:

Board Member	Area of competence
Peter Krutil (Chairman)	Member of the Presidium of the Slovak Banking Association, member of the Board of Trustees of the Slovenská sporiteľňa Foundation
Zdeněk Románek	Member of the Supervisory Board of KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group (until 7 December 2021), member of the Supervisory Board of Asset Management Slovenskej sporiteľne, správ. spol., a.s. (until 31 December 2021);
Pavel Cetkovský	Deputy chairman of the Deposit Protection Fund Council, director of Procurement Services SK, s.r.o., chairman of the Supervisory Board in LANED a.s., member of the Supervisory Board of Prvá stavebná sporiteľňa, a.s.
Norbert Hovančák	Member of the Board of the Slovak-Austrian Chamber of Commerce; Member of the Board of the American Chamber of Commerce in Slovakia, member of the Supervisory Board of Asset Management Slovenskej sporiteľne, správ. spol., a.s.;
Milan Hain	Executive officer of Služby SLSP, s.r.o., in liquidation (until 28 May 2021), member of the Supervisory Board of Erste Digital GmbH;

Policy and principles of remuneration for members of the Board of Directors

The remuneration of members of the statutory body, the Supervisory Board and selected categories of employees in Slovenská sporiteľňa is in accordance with the Act on Banks, employment law, in particular the Labour Code and the implementing directives of the European Parliament and the European Council that affect supervision of remuneration principles in banks, such as CRD IV, now amended by CRD V (the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms) and the Markets in Financial Instruments Directive (MiFID II), legislation issued by Národná banka Slovenska and the guidelines of the European Banking Authority (EBA) and European Securities and Markets Authority (ESMA) on remuneration policy.

The remuneration policy takes account of the principle of proportionality and the requirements of EU legislation calling for limitation of the risk resulting from the motivation of persons who could have a material effect on the Bank's activity and risk profile. Rules for remuneration of specific groups of employees adopted by the Bank are drawn up with consideration of the Bank's activity, the Bank's risk profile and the significance of the impact of individual categories of staff on the risk profile. The basic remuneration principles and strategy for the aforementioned persons who are subject to the remuneration principles established by the Act on Banks are approved by the Supervisory Board's Remuneration Committee, which also monitors compliance with these principles. The Remuneration Committee conducts its activities under powers delegated by the Supervisory Board. The Supervisory Board is responsible for the adoption and upholding of the remuneration policy and monitors its implementation to ensure its proper functioning. It may delegate its responsibilities for remuneration to the Remuneration Committee or, conversely, it may at any time withdraw, in whole or in part, the Remuneration Committee's responsibilities in matters of remuneration. The Remuneration Committee cannot be given competence to approve the variable remuneration of members of the Board of Directors or to approve payments related to the early termination of an employment contract or any other relationship with members of the Board of Directors.

Members of the Remuneration Committee are actively involved in the design of remuneration policies and models. Their principal tasks include setting the remuneration strategy for executive management, for risk takers (employees with a significant influence on the Bank's risk profile resulting from their position and professional activities) and the heads of control units, ex-post and ex-ante information on material changes in variable remuneration schemes, and approving the variable remuneration model and practices for all employees (for example, approving conditions for bonus payments, instrument types, the balance of fixed and variable remuneration components, and performance indicators for members of the Board of Directors). The Remuneration Committee conducts regular reviews of remuneration policy and assesses new schemes for variable remuneration or fundamental changes in existing schemes.

In accordance with statutory requirements and rules as well as the methodology adopted by Erste Group, remuneration is divided into 2 parts - fixed and variable. The variable remuneration component may reach at most 100% of the fixed remuneration component.

In accordance with the Banking Act, the Bank applies the following remuneration model for the payment of the variable component of total remuneration, in which there are two methods of payment of the variable component. In the first method, a 4-year or 5-year deferral in the form of investment certificates is applied to the 40% part of the variable remuneration component, and the remaining 60% is divided into two equal parts, one of which is payable in cash and the other in the form of investment certificates maturing after one year. In the second method (if the variable remuneration component is greater than €150 000), the 60% part of the awarded variable remuneration is subject to a 4-year or 5-year deferral (the "deferred part") in the form of investment certificates. The remaining 40% share of the awarded variable remuneration component is divided into two equal parts, one of which is payable immediately and the other in the form of investment certificates maturing after one year. If a material risk taker is a member of the Board of Directors, the Supervisory Board, or a managerial employee, the deferral period is 5 years. The deferral period for all other material risk takers is 4 years. The deferred bonus component may be spread over several payments during the deferral period in accordance with Section 23b(13) of Act no. 483/2001 Coll. on Banks. The claim to payment of the deferred remuneration does not expire faster than in the case of proportional payment. In the event that the annual variable component of the total remuneration is less than €50 000, and is not higher than one third of the employee's total annual remuneration, the conditions for deferral of the bonus do not apply – the bonus is paid out as one cash payment.

Payment of the variable part of the remuneration is linked to fulfilment of predetermined criteria. Individual remuneration is based on a combination of the assessment of individual work performance and evaluation of the Bank's overall results. Objectives are set within the risk management system so that in the event of their non-fulfilment, the variable portion of total remuneration for the period evaluated will be decreased, or possibly not paid. Payment of the variable part of remuneration is subject to the conditions of zero tolerance in the event of conviction for a crime related to performance of work function, fraudulent conduct, conduct contrary to the Bank's internal guidelines or violation of obligations ensuing from legislation. The Bank also has a principle in place that no insurance or other hedging strategy may be applied in connection with remuneration or responsibility that could reduce the impact of remuneration principles focused on risk.

Erste Group's remuneration policy stipulates that Bank employees who are members of the Supervisory Board in other Erste Group companies are not entitled to remuneration for their Supervisory Board functions, unless they are employee-elected Supervisory Board members.

Implementation of remuneration principles is subject to annual review by the Internal Audit Division of Slovenská sporiteľňa. The Internal Audit review for 2020 did not find any significant shortcomings in the procedures and rules for calculating and awarding the variable component of the total remuneration. Slovenská sporiteľňa submits the review of compliance with remuneration rules to Národná banka Slovenska by 30 June of the year following the calendar year to which the report relates.

Pursuant to Decree of Národná banka Slovenska and in accordance with EU Regulation No 575/2013, Slovenská sporiteľňa publishes the following information on its website:

- information concerning the decision-making process used for determining the remuneration policy as well as the number of meetings held by the Supervisory Board, which oversees remuneration during the financial year, including information about the composition and mandate of the Remuneration Committee and on any external advisor whose services were used for setting remuneration policy;
- information on the roles of the relevant stakeholders;
- information on the link between pay and performance;
- the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferment policy and vesting criteria;
- the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU;
- the payment model used for the variable component of total remuneration in divisionalised business units;
- the main parameters and rationale for any variable component scheme and any other non-cash benefits;
- the number of individuals being remunerated € 1 million or more for the financial year in question;
- aggregate quantitative information on remuneration broken down by business area; and
- aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the Bank, as stipulated in Article 450(1)(h) of the aforementioned Regulation (EU) No 575/2013.

Activities of the Board of Directors in 2021

In 2021 the Board of Directors met 48 times. One decision was taken in the form of a circular resolution. The Board of Directors regularly discussed the Bank's financial results. It fulfilled control activity and security policy obligations either by considering reports drawn up by the company's internal audit or by discussing reports on compliance and evaluation of the programme of own activity against money laundering and terrorist financing. Particular attention was paid to risk management, credit portfolio analyses, and monitoring of customer behaviour to protect shareholders' and clients' funds. In order to streamline workflows, the Board of Directors also decided to make changes to the company's organisational structure and approved projects and strategic programmes focused on change management. Self-managing units with elements of agile management were added to the Bank's organisation structure. Changes in the legislative environment, regulatory requirements and market conditions were reflected in decisions made by the Board of Directors concerning consumer protection, business conditions and product policy, an update to the programme of own activity against money laundering and terrorism financing, and the adoption of the environmental protection policy. Strategic decisions on investments in information technology were implemented through activities aimed at the development of services for clients, communication and sales channels, digital technologies and company culture and values. Within the scope of its duties and competencies, the Board of Directors applied decisions in accordance with the ECB's regulations and guidelines in the areas of remuneration, dividend policy, risk management and capital.

Again during 2021, the specially established task force coordinated all the Bank's activities related to the pandemic caused by the SARS-CoV-2 virus and to protection against its spread both in branches and in the headquarters building. Among other measures, the Bank employed the maximum possible installation and use of information technology and online communication channels to enable employees to work from home to the extent the nature of their work and security permitted it. All the Bank's actions, including preventive measures, took account of the fact that the banking sector was designated as critical infrastructure that had to be kept in operation even during the pandemic.

SHAREHOLDER RIGHTS, KEY FUNCTIONS OF OWNERSHIP AND SHARE CAPITAL STRUCTURE

Shares forming the company's share capital may be issued only as registered book-entry shares. Changes to their form or type are forbidden by law. The company is a private joint-stock company. The Bank's share capital is €212 000 000. It is divided into 212 000 registered book-entry shares. The par value of one share is €1 000. The shares have not been admitted for trading on any regulated market. The shares are registered in the Central Securities Depository of the Slovak Republic in accordance with applicable legislation. Shares carry the right to participate in the management, profit and liquidation balance, and voting rights. The securities forming the share capital are transferable without restrictions.

As at 31 December 2021, a qualified participation of 100% in the Bank's share capital is held by Erste Group Bank AG, registered office Am Belvedere 1, 1010 Vienna, Austria.

The company applies principles of equitable treatment of shareholders in a manner appropriate to the fact that the Bank has a sole shareholder. Pursuant to the company's articles of association, the Bank applies special provisions for a sole shareholder. The voting rights of the sole shareholder are not limited and the management of Slovenská sporiteľňa is not aware of the existence of any agreement that could restrict transferability of securities or restrict voting rights. As at the date of writing this report, Slovenská sporiteľňa has not issued any employee shares or shares with special control rights. In 2021, Slovenská sporiteľňa did not acquire any own shares, interim shares or participating interests or shares; nor does it acquire any interim shares or participating interests in its parent accounting entity pursuant to Section 22 of the Accounting Act. Any decision to increase or decrease the Bank's share capital, to issue or redeem shares lies in the direct responsibility of the General Meeting. The shareholder is entitled to participate at the General Meeting, to vote, to make proposals and to request information and explanations concerning the company's affairs, or the affairs of entities controlled by the company that relate to the subject of discussion of the General Meeting. The shareholder also has the right to a share in the company's profit (dividend), which the General Meeting determines for distribution based on the company's profit. The shareholder also has the right to decide on the payment of board members' fees for members of the Supervisory Board in the proposal for profit distribution. The dividend payment was in accordance with the Recommendation of the European Central Bank of 15 December 2020 on dividend distributions (ECB/2020/62). The Bank adopted dividend policies that use conservative and prudential assumptions to meet applicable capital requirements after each dividend distribution.

In accordance with the Articles, the shareholder has the right to appoint and to dismiss members of the Supervisory Board, other than those members elected by employees. The Bank provides regular information to the shareholder in annual, half-yearly and quarterly reports submitted to the regulatory authority so that the shareholder is sufficiently informed about the company's state and the state of its investment.

The company is not aware of any significant agreements to which the Bank is a party which will take effect, be amended or cease to be valid because of a change in control of the Bank occurring in connection with a takeover bid.

The Bank's relations with members of its bodies and its employees, regarding the end of their tenure or termination of employment, are governed by the Labour Code, the Act on Banks and the Commercial Code.

For 2021 Slovenská sporiteľňa does not record any operating costs associated with research and development.

List of companies consolidated in the financial statements as at 31 December 2021 (structure of the Bank's consolidation group):

- LANED a.s., registered office Tomášikova 48, 832 71 Bratislava, ID no.: 35 918 918
- SLSP Social Finance, s.r.o., registered office Tomášikova 48, 832 01 Bratislava, ID no.: 52 840 107
    - Dostupný Domov j.s.a., registered office Farská 48, 949 01 Nitra, ID no.: 52 990 401 (49.88% affiliated company to SLSP Social Finance, s.r.o.)
- Procurement Services SK, s.r.o., registered office Tomášikova 48, 832 75 Bratislava, ID no.: 36 721 972
- Slovak Banking Credit Bureau, s.r.o., registered office Mlynské nivy 14, 821 09 Bratislava, ID no.: 35 869 810
- Holding Card Service s r.o., registered office Olbrachtova 1929/62, 140 00 Praha 4, Czech Republic, ID no.: 045 62 861
- Prvá stavebná sporiteľňa, a. s., registered office Bajkalská 30, 829 48 Bratislava, ID no.: 31 335 004

The company S Slovensko, spol. s r.o., registered office Tomášikova 48, 831 04 Bratislava, ID no: 35 812 419 was dissolved on 24 March 2021 by merger with Slovenská sporiteľňa, a.s.

STAKEHOLDERS' RIGHTS, INFORMATION DISCLOSURE AND TRANSPARENCY

As the largest bank in the Slovak financial market, Slovenská sporiteľňa is fully aware of the extent and significance of its social responsibilities. A long-term interest of Slovenská sporiteľňa, which is reflected in its strategy and values, is that of delivering benefit to clients, the shareholder, employees and society as a whole. The Bank prepares both financial and business plans with all these stakeholders in mind. It applies the fundamental principle of effective and responsible corporate governance as well as the principles of transparency and information disclosure at all levels and in all relations with its shareholder, customers and staff. The Bank strictly observes compliance with legal regulations and corporate governance principles. It regularly briefs its shareholder and investors of the parent company on all important information on its business, financial and operating results, and other important events. It informs its customers and the public of its financial results and strategic priorities via press conferences and press releases, which are also available on the Bank's website. All information is prepared and disclosed in accordance with standards for accounting and disclosure of financial and non-financial information. Employees are kept informed about the Bank's strategy and results at regular meetings, regional meetings, conferences, by means of internal communication channels, an internal magazine, training programmes and management personnel. Staff may exercise their right to information also via their representatives on the Supervisory Board as well as a person appointed for this purpose via a confidential telephone line and an email address to which employees can direct their complaints, suggestions and initiatives outside the established workflow and hierarchy. Clients have direct access to an independent ombudsman, who deals with their submissions or complaints on a case-by-case basis. The Bank's relations with related parties are also in accordance with the law. The approval of transactions with related parties is set aside for the Board of Directors; where a related party includes a member of the statutory body, approval falls to the Supervisory Board.

Statement of Responsible Persons

The responsible persons of Slovenská sporiteľňa, with its registered office at Tomášikova 48, 832 37 Bratislava, entered in the Commercial Register of District Court Bratislava I, section: Sa, entry: 601/B, corporate registration no.: 00151653: Ing. Peter Krutil, Chairman of the Board of Directors and CEO, and Ing. Pavel Cetkovský, Member of the Board of Directors and Deputy CEO, to the best of their knowledge hereby declare that the financial statements contained herein give a true and fair representation of assets, liabilities, financial situation and results of Slovenská sporiteľňa and companies consolidated by Slovenská sporiteľňa, and that this Corporate Governance Report and Annual Report represent a true and fair view of the development and results of Slovenská sporiteľňa's business operations and position, including the companies included in its consolidation for 2020, together with a description of the key risks and uncertainties it faces in connection with its business activities.

After the end of accounting period covered by this annual report, the ECB has approved the election to the Supervisory Board of David O'Mahoney, who represents the shareholder (who was also elected as the new chairman of the Supervisory Board by its members), and Alena Adamcová and Juraj Futák, who were elected by Bank employees as their representatives in elections in January.

In addition, in February 2022, political tensions in the region escalated into a war between the Russian Federation and Ukraine. This conflict has severely affected global events, adversely impacted commodity prices and financial markets, and attributed to increased volatility within the business environment. The situation remains very unstable, and the impact of imposed sanctions, restrictions on the business activities of companies operating in the region, and the consequences for the economic environment as a whole (primarily restrictions on supply and demand chains) can be expected. There has not been any direct impact on the bank due to only negligible exposure to these countries. However, the extent of the indirect consequences affecting the business environment in which the Bank operates cannot currently be fully anticipated.

Supervisory Board Report

The Supervisory Board of Slovenská sporiteľňa, in performing its activities over the course of 2021, was governed by statutory provisions applicable in the Slovak Republic. It fulfilled tasks arising from the Bank's Articles of Association, took decisions on matters falling within its competence pursuant to the Bank's competence rules, and was governed by the Supervisory Board's internal rules of procedure.

In 2021, four ordinary meetings of the Supervisory Board were held, and four decisions were adopted by circular resolution. The Supervisory Board discussed and adopted an opinion regarding the individual and consolidated financial statements, the proposal for profit distribution and the Board of Directors' report on the company's business activities and assets.

Over the year, it paid due attention to monitoring the Bank's position in risk management and controlling the security and effectiveness of the risk management system through regular quarterly reports submitted by the Board of Directors. The Supervisory Board discussed and approved the risk management report, which was submitted by the Chief Risk Officer in accordance with the law. It also deliberated on the regular reports of the Remuneration Committee of the Supervisory Board concerning its activities and the application of remuneration principles. Based on the Remuneration Committee's recommendation, the Supervisory Board approved the remuneration of the members of the Bank's Board of Directors as a component of the variable part of their remuneration. It discussed the report of the Nomination Committee assessing the suitability of members of the Supervisory Board and Board of Directors on both an individual and collective basis. It approved the Bank's strategic outlook, planning documents for 2022 and the plan of internal audit activities. It updated the statutes of two of its advisory bodies, namely the Remuneration Committee and the Risk Management Committee.

In connection to the decision of the European Central Bank and in accordance with Article 8(7)(i) of the Articles of Association of Slovenská sporiteľňa, a.s., it granted prior approval to the appointment of Jaroslav Řepa as the Internal Audit Division Director. It also took note of the resignation of Zdeněk Románek from the Board of Directors as of 30 November 2021.

Members of the Supervisory Board were regularly briefed by the Bank's Board of Directors on its business activity, the implementation of its business plan, the balance of the company's assets, implementation of the Bank's major projects, equity investments, purchase of a part of the business and about other matters related to the company's activities and development in pursuing its licensed banking activities. Within its competence, it approved the internal audit strategy and plans falling within the purview of the Supervisory Board under the Bank's Organisational Code. Pursuant to the amendment to Act no. 483/2001 Coll. on banks, the Supervisory Board also examined compliance with the remuneration principles and implementation of the remuneration of identified individuals that have a significant impact on the Bank's risk. The Supervisory Board was kept regularly informed of the measures taken by the Board of Directors in relation to the pandemic emergency in Slovakia.

As at the end of 2021, there were changes in the positions of the chairman of the Supervisory Board and two of its members elected by employees. Stefan Dörfler, chairman of the Supervisory Board, resigned from his position due to his election as a member of the Supervisory Board of BCR in Romania. Beatrica Melichárová resigned from the Supervisory Board by her own decision and Alena Adamcová's term of office expired.

In 2021, the Supervisory Board worked with the support of advisory committees, namely the audit, credit, remuneration, nomination and risk management committees, which are established and operate according to their own statutes. The Nomination Committee, the Remuneration Committee and the Risk Management Committee are chaired by independent members of the Supervisory Board in accordance with the guidelines EBA/2017/11.

Pursuant to Act no. 423/2015 on statutory audit and Act no. 431/2002 Coll. on accounting, as amended, the Audit Committee of the Supervisory Board assessed reports in the area of internal control and regularly familiarised itself with the level and effectiveness of internal audit. In accordance with statutory requirements, the committee took responsibility for the procedure to select a statutory auditor and recommended that the General Meeting approve PricewaterhouseCoopers Slovensko, s.r.o. to conduct the statutory audit. Within this process the Audit Committee set a deadline for the appointed statutory auditor to submit an affidavit regarding its independence. The committee held discussions with representatives of the external auditor on the annual financial statements, including the external auditor's opinion and the auditor's recommendations contained in the letter to the management. It briefed the Bank's Supervisory Board on the outcome of the statutory audit and the procedures through which the statutory audit contributed to the integrity of the financial statements. Another important part of the agenda comprised reports on the Bank's activities in the area of compliance and operational risk management, and reports on implementation of the programme of own activity against money laundering and terrorist financing. Within the scope of its competence, the committee reviewed the suitability of provision of non-audit services and services provided by the statutory auditor and approved the procurement of non-audit services from licensed auditing companies.

The Credit Committee of the Supervisory Board decides on certain credit transactions on an ad hoc basis in accordance with the Bank's Competence Code. It did not assess any business case in 2021.

The Remuneration Committee of the Supervisory Board considered, approved and inspected the remuneration principles for members of the Board of Directors as well as selected categories of material risk takers at the Bank. The primary focus was on the balancing of all risks related to the remuneration system so as to ensure long-term prudent management of the company, including its liquidity, capital, etc. It also approved the key banking objectives and KPIs for board members and their evaluation for the preceding accounting period. It also approved the updated list of persons having a material impact on the Bank's risk. In 2021 the Committee held four ordinary meetings and made five decisions by circular resolution.

The Supervisory Board established a Nomination Committee as its advisory body in fulfilling its responsibilities relating to the nomination of new members of the Bank's Board of Directors and Supervisory Board and their subsequent repeated evaluation. The suitability of the members of the supervisory and statutory bodies is reviewed once a year in accordance with the Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12) and Methodological Guideline No 1/2018 of the Financial Market Supervision Unit of Národná banka Slovenska on the demonstration of the competence and suitability of persons nominated to functions in accordance with the Act on Banks. In 2021, the committee held three ordinary meetings at which it assessed the suitability of members of the Board of Directors and Supervisory Board on an individual and collective basis and evaluated candidates nominated to the vacant positions on the Supervisory Board and the candidate for the position of Internal Audit Division Director.

During 2021 the Risk Management Committee supported the Supervisory Board in its quarterly monitoring of the Bank's current and future risk appetite. In accordance with its mission, it provided strategic advice on capital and liquidity management considering all risk types to ensure their alignment with the Bank's business strategy, objectives, corporate culture and values. In 2021 the Committee held four ordinary meetings.

The Supervisory Board discussed the audit of the consolidated and standalone balance sheet of Slovenská sporiteľňa as well as the related profit & loss statement as at 31 December 2021. The audit was carried out and verified by PricewaterhouseCoopers Slovensko, s.r.o. in accordance with International Standards on Auditing. It confirmed that the financial statements gave a true and fair view of the Bank's financial situation as at 31 December 2021 in all material regards and that it had no objections to them. Based on the above facts, the Supervisory Board recommended that the General Meeting approve the financial statements for 2021, as presented, including the proposal for distribution of the Bank’s profit for 2021.

David O´Mahony
Chairman of the Supervisory Board

Members of the Board of Directors and Supervisory Board of Slovenská sporiteľňa, a.s.

TOP MANAGEMENT OF SLOVENSKÁ SPORITEĽŇA, A.S.

PETER KRUTIL

Chairman of the Board and CEO

Peter Krutil is a graduate of the Management Faculty at the University of Economics in Bratislava. He served internships at Creditanstalt Vienna and Creditanstalt London. From 1991 to 1993, he was a securities dealer for VÚB Bank, where he worked on the listing of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka as a dealer in money and capital markets. From 1993 to 1998 he was a managing director and later a member of the Board of Directors at Creditanstalt Securities, o.c.p., a.s., Bratislava. In 1998 he worked for the Ministry of Economy of the Slovak Republic. In December 1998 he was elected a member of the Board of Directors of Slovenská sporiteľňa. On 1 April 2015 he took up the position of Deputy Chairman of the Board of Directors and Deputy CEO of Slovenská sporiteľňa.

With effect from 1 January 2018, he was elected Chairman of the Board of Directors and CEO of Slovenská sporiteľňa. He is responsible for management of the Staff Units line and balance sheet management.

PAVEL CETKOVSKÝ

Board Member and Deputy CEO

Pavel Cetkovský has a master's degree from the Brno University of Technology and a bachelor's degree from the Institute for Economics and Management in Kiev, Ukraine. In 1994, he began his professional career at Česká spořitelna, where he held several managerial positions in risk management and asset and liability management. He worked in Erstebank Kiev in Ukraine as a member of the Board of Directors and later its Chairman from 2007 to 2013. His areas of competence and responsibility included risk management, information technology and operations and staff units. He joined Erste Group Bank AG in Vienna in 2013 with responsibility for liquidity management throughout the Erste Group, managing banking book interest rate risk and managing the banking group's investment portfolio.

With effect from 26 January 2018, he was elected Member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa. He is responsible for management of the Finance line. On 1 July 2019 he was entrusted with management of the Risk Management line and on 1 December 2019 he was appointed the Chief Risk Officer in Slovenská sporiteľňa.

ZDENĚK ROMÁNEK

Board Member and Deputy CEO

Zdeněk Románek is a graduate of Charles University and the University of Economics in Prague. He has an MBA degree from INSEAD Fontainebleau University in France.

He began his professional career in 1999 in the consulting company KPMG in Prague. After a year at the Czech Revitalisation Agency, he started consulting for McKinsey & Company in several European countries in 2001. In 2007 he moved to Česká pojišťovna, a part of Generali PPF Holding, where he was responsible for sales, distribution and product management. In 2013 he took charge of retail banking in Air Bank in the Czech Republic.

He became a member of the Board of Directors of Slovenská sporiteľňa on 15 June 2015, when he was elected a Member of the Board of Directors and Deputy CEO. He was responsible for the Retail Banking line until 30 November 2021. He resigned from the Bank's Board of Directors with effect from this date by his own decision before the expiry of his regular term of office.

NORBERT HOVANČÁK

Board Member and Deputy CEO

Norbert Hovančák graduated from the Faculty of Business Administration of the University of Economics in Bratislava, the Faculty of Arts of the University of Prešov and interdisciplinary studies at the Faculty of Law of the Pavol Jozef Šafárik University in Košice. His professional career has been closely linked with Slovenská sporiteľňa, where he began working in 1998. He worked his way up through several positions in branches, taking care of corporate clients. Since 2001 he has held management positions related to corporate client risk management. In 2013 he became the director for corporate clients and then in 2018 he took over corporate banking as a whole.

With effect from 01 October 2019, he was elected a Member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa. He is responsible for the Corporate banking & Markets line. He took over responsibility for the Retail Banking line from 1 December 2021.

MILAN HAIN

Board Member and Deputy CEO

Milan Hain completed doctoral research on computer modelling, measurement and systems management at the Faculty of Mathematics and Physics of Comenius University in Bratislava and the Eindhoven University of Technology. From 1993 to 1999 he worked at VÚB Bank in various positions and management functions related to IT development. He then worked as Chief Information Officer for Slovak Telekom until 2012 and until June 2018 he was a Board Member and Chief Information Officer in Raiffeisenbank in Prague, where he was responsible for technology, the transformation programme and the implementation of an omnichannel platform. In his career, he has participated in many management programmes and training courses on marketing, finance, human resources and communication and he has extensive professional experience in the development, security, management and architecture of information systems and technology.

He was elected a Member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa on 01 July 2018. He is responsible for the IT & Operations line.

SUPERVISORY BOARD OF SLOVENSKÁ SPORITEĽŇA, A.S.

STEFAN DÖRFLER

Chairman

Stefan Dörfler graduated from the University of Technology in Vienna in the field of applied mathematics. Since 1995 his professional career has been linked to Erste Group, first in interest rate and foreign exchange derivatives trading and later as the group manager for bonds trading. In 2004, he became responsible for capital market trading at Erste Group Bank AG and in 2007 he took over responsibility for global capital markets, institutional and corporate sales. Since 2009, he has been the Capital Market Director for the entire Erste Group. In 2016 he became CEO and chairman of the management board of Erste Bank der österreichischen Sparkassen AG. He is currently a member of the Board of Directors of Erste Group Bank AG with responsibility for finance.

He became a member of the Supervisory Board of Slovenská sporiteľňa, a.s. on 14 October 2019. He resigned from the Supervisory Board with effect from 31 December 2021 in accordance with a decision of the shareholder to elect him to the Supervisory Board of BCR in Romania.

JAN HOMAN

Vice-chairman

Jan Homan graduated in economics at the Vienna University of Economics and Business. He gained banking experience in Frankfurt, New York and Düsseldorf for Chase Manhattan Bank, which he joined in 1972, and later in Bank Société Générale Alsacienne in Vienna. Since 1978 he has held management positions in the international engineering and chemical corporations Sandvik Austria and Sun Chemical in Vienna. Since 1991 he has been the CEO of Constantia Teich Group and since 2004 the Chairman of the Board of Directors of Constantia Flexibles Group. In 2011 he was elected a member of the Supervisory Board of Constantia Flexibles. In 2004 he became a member of the Supervisory Board of Erste Group Bank AG and he is currently the first deputy chairman.

He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2012. He was re-elected for a further term of office in 2017.

VAZIL HUDÁK

Independent member

He studied international relations and diplomacy at the Moscow State Institute of International Relations. He was educated in law at Charles University in Prague. He completed a training programme for executives in international business management at Harvard Business School in Boston.

He began his professional career at the Ministry of Foreign Affairs of the Czech and Slovak Federative Republic and later worked in executive positions in advisory and investment groups focusing on Central and Eastern European countries (Eastwest Institute, CITIGROUP, J.P. MORGAN CHASE) before becoming a member of the Economic and Financial Committee of the Council of the European Union and a board member at the European Bank for Reconstruction and Development and the European Investment Bank.

From 2012 to 2016, he worked at the Ministry of Finance of the Slovak Republic as state secretary and later as minister. From 2016 to 2019 he was vice-president of the European Investment Bank. He currently works in the GLOBSEC non-governmental organisation, where he is responsible for the political and strategic management of its key programmes. On 11 November 2020 he was elected to the Supervisory Board of Slovenská sporiteľňa as an independent member.

PAUL FORMANKO

Independent member

Paul Formanko is a graduate of the University of Illinois at Chicago, the Faculty of Economics of Katholieke Universiteit Leuven, Belgium, and the University of Chicago, from which he holds an MBA in Finance and International Business. In 1994 he joined J.P. Morgan Investment Management in New York and London as an analyst and investment advisor for emerging markets in Central Europe, Russia and Turkey. From 1998 he held senior analytical and advisory positions at Goldman Sachs International and CLSA Global Emerging Markets in London. In 2003 he joined J.P. J.P. Morgan Equity Research in London, where he worked in senior research positions until 2018. During this period Paul became the Head of CEEMEA Banks Equity Research and managing director of J.P. Morgan London. He is currently an independent member of the Supervisory Board of Slovenská sporiteľňa. He was elected with effect from 4 February 2019.

ALENA ADAMCOVÁ

Supervisory Board Member elected by employees

Alena Adamcová holds a master's degree from the Faculty of Arts of Constantine the Philosopher University in Nitra. She has worked at Slovenská sporiteľňa since 1985 in various positions in the branch network, and since 1996 in managerial positions. She currently works as a specialist for entrepreneurs. She is a member of the Erste Bank European Works Council and deputy chairman of the Trade Union Committee in Slovenská sporiteľňa.

She was elected a member of the Supervisory Board of Slovenská sporiteľňa with effect from 2 November 2016. Her term of office expired on 2 November 2021.

BEATRICA MELICHÁROVÁ

Supervisory Board Member elected by employees

Beatrica Melichárová graduated from the Faculty of Law of Comenius University in Bratislava. She joined Slovenská sporiteľňa immediately after graduation in 1981. Since 1987 she has held a number of management positions within the Bratislava branch. In 2002, she took a full-time role leading the trade union organisation of Slovenská sporiteľňa. She is a member of the European Works Council of Erste Bank and a member of its Board; Deputy Chairman of the Trade Union of Finance and Insurance Workers and an active member of the Slovak Trade Union Confederation committees. Employees first elected her a member of the Supervisory Board of Slovenská sporiteľňa in 2003.

After the expiry of her previous term of office on 19 December 2018, Beatrica Melichárová was re-elected as a member of the Supervisory Board by the Bank's employees with effect from 7 May 2019. She resigned from the Supervisory Board with effect from 31 December 2021 by her own decision.

Annexes

Slovenská sporiteľňa, a.s.

Consolidated financial statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2021

(Translated version, original version in Slovak)

pwc

Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Slovenská sporiteľňa, a.s.:

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slovenská sporiteľňa, a.s. and its subsidiaries (together - the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 23 February 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended 31 December 2021;
- the consolidated statement of comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year ended 31 December 2021;
- the consolidated statement of cash flows for the year ended 31 December 2021; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Act No. 423/2015 on Statutory Audit and on the amendments and supplements to the Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory Audit") that are relevant to our audit of the consolidated financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Act on Statutory Audit.

To the best of our knowledge and belief, we declare that non-audit services that we have provided are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

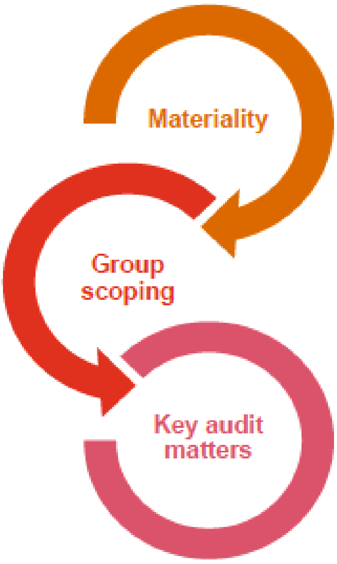
PricewaterhouseCoopers Slovensko, s.r.o., Twin City/A, Karadžičova 2, 815 32 Bratislava, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The firm's ID No.: 35 739 347. The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.
IČO Spoločnosti je 35 739 347. Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

The non-audit services that we have provided to the Group, in the period from 1 January 2021 to 31 December 2021, are disclosed in Note 39 to the consolidated financial statements.

Our audit approach

Overview



Overall Group materiality is EUR 12.56 million which represents approximately 5% average of the last three-year consolidated profit before income tax and levy on banking activities.

We focused our audit work on Slovenská sporiteľňa, a.s. which is the most material consolidated reporting unit. Slovenská sporiteľňa, a.s. as a standalone reporting unit represents approximately 100% of the Group's total assets as at 31 December 2021 and approximately 100% of the Group's net result for the year then ended.

The audit of the credit loss allowance estimate required our significant attention given the nature of this estimate and its significance to the consolidated financial statements.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

pwc

Overall Group materiality	EUR 12.56 million
How we determined it	We determined Group materiality as approximately 5% average of the last three-year consolidated profit before income tax and levy on banking activities.
Rationale for the materiality benchmark applied	Performance of the Group is most commonly evaluated by the financial statements' users based on the Group's profitability. The quantitative threshold of approximately 5% was applied to average three-year consolidated profit before income tax and levy on banking activities recorded by the Group during the years 2021, 2020 and 2019. Levy on banking activities was added to profit before income tax because of the similar nature to income tax. The recent economic development resulting from COVID-19 pandemic led to volatility in the Group's profit before tax. Average three-year consolidated profit before tax adjusted for the levy represents a stable materiality benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Credit loss allowance estimate	
As explained in Note 13, Note 14 and Note 31 to the consolidated financial statements, management estimated the total credit loss allowances for loans and advances to customers, finance lease receivables and trade and other receivables at EUR 342,076 thousand. The carrying value of loans and advances to customers, finance lease receivables and trade and other receivables measured at amortised cost may be materially misstated if the individual or collective credit loss allowances are not appropriately identified and estimated. The estimates required for measuring credit loss allowances under the expected credit loss models are	We assessed and tested the design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans. We tested the design and operating effectiveness of general IT controls, including access to programs and data, program changes and computer operations related to quantification of credit loss allowances. We verified that models used for quantification of credit loss allowances are in line with the requirements of IFRS 9. A sample of loan exposures was examined to test accuracy of the credit loss allowances calculated on an individual basis. We assessed management's assumptions, including forecasts of the future cash flows, by comparing them to historical performance of the customer and expected future performance, as well as the external and internal valuations of the underlying collateral, by comparing them to the values

pwc

Key audit matter	How our audit addressed the key audit matter
significant estimates. The identification of significant increase in credit risk or default; the estimation of credit loss including estimates of future cash flows and valuation of collateral; application of comprehensive credit models - all involve significant management judgement. In 2021, the estimate of credit loss allowances continued to be influenced by the COVID-19 pandemic, partial recovery of the economic activity and ongoing uncertainty about the pandemic's impact on the economy and the financial condition of the Group's customers. Due to the significance of the amount of the credit loss allowances and material impact of the credit loss allowances on the net result for the year, we consider the credit loss estimate as a key audit matter.	used by management in the credit loss allowance quantification. On a sample basis, we assessed the underlying models, reasonableness of assumptions, completeness and accuracy of the underlying data, which were used by the Group to estimate the collective credit loss allowances for loans that share similar credit risk characteristics. The underlying models and expert judgement applied by the Group in response to the COVID-19 pandemic were assessed by our specialists for financial risk management and modelling. They assessed the design and application of the models in line with the relevant reporting standards, including introduction of additional criteria used for identification of significant increase in credit risk and shifts in risk parameters due to the COVID-19 pandemic. The specialists assessed reasonableness of the forward-looking information and its impact on the risk parameters and accuracy of the collective credit loss allowances. Our specialists assessed a validation process implemented by the Group and interpreted results of the validation report.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed. Slovenská sporiteľňa, a.s. as a standalone reporting unit represents approximately 100% of the Group's total assets as at 31 December 2021 and approximately 100% of the Group's net result for the year then ended. We focused our audit work on Slovenská sporiteľňa, a.s. which is the most material consolidated reporting unit. Except for Slovenská sporiteľňa, a.s., we did not identify other significant reporting units where full-scope audit procedures were required.

pwc

Reporting on other information including the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and separate financial statements and our auditor's reports thereon).

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Report, we considered whether it includes the disclosures required by the Act on Accounting No. 431/2002, as amended (hereafter the "Accounting Act").

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Annual Report for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Annual Report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Annual Report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

pwc

Report on other legal and regulatory requirements

Appointment as an independent auditor

We were first appointed as auditors of the Group on 27 March 2017. Our appointment has been renewed annually by the shareholder's resolution representing a total period of uninterrupted engagement appointment of five years. Our appointment for the year ended 31 December 2021 was approved by the shareholder's resolution on 24 March 2021.

Presentation of the consolidated financial statements in compliance with the requirements of the European Single Electronic Format ("ESEF")

The management is responsible for the presentation of the consolidated financial statements for the year ended 31 December 2021 included in the Annual Financial Report that complies with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The presentation of the consolidated financial statements for the year ended 31 December 2021 in electronic XHTML format marked up using the XBRL markup language is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the compliance of the presentation of the accompanying consolidated financial statements with the requirements of the ESEF Regulation.

After management provides us with the electronic XHTML format of the accompanying consolidated financial statements marked up using the XBRL markup language, our responsibility will be to perform an engagement in accordance with the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits and Reviews of Historical Financial Information, with the objective to obtain reasonable assurance on the compliance of the consolidated financial statements with the requirements of the ESEF Regulation. Our updated auditor's report will either state that based on the procedures performed, the presentation of the consolidated financial statements complies, in all material respects, with the requirements of the ESEF Regulation, or we will describe any material non-compliance that we would identify in this respect.

The engagement partner on the audit resulting in this independent auditor's report is Mgr. Martin Gallovič.

PricewaterhouseCoopers Slovensko, s.r.o.

Slovenská komora audítorov SKAU Č. licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o. SKAU licence No. 161	Mgr. Martin Gallovič UDVA licence No. 1180

24 February 2022, except for the section "Reporting on other information including the Annual Report" of this report, for which the date of our report is 18 March 2022.

Bratislava, Slovak Republic

CONTENT

Consolidated statement of income		60
Earnings per share		60
Consolidated statement of comprehensive income		61
Consolidated statement of financial position		62
Consolidated statement of changes in equity		63
Consolidated statement of cash flows		65
Notes to the consolidated financial statements		**67**
Performance / Return		**72**
1.	Segment reporting	72
2.	Net interest income	75
3.	Net fee and commission income	76
4.	Dividend income	77
5.	Net trading result	78
6.	Gains/losses from financial instruments measured at fair value through profit or loss	78
7.	Rental income from investment properties & other operating leases	79
8.	General administrative expenses	79
9.	Impairment result from financial instruments	80
10.	Other operating result	82
11.	Taxes on income	83
Financial instruments – Significant accounting policies		**87**
Financial instruments held at amortised cost		**93**
12.	Cash and cash balances	94
13.	Financial assets at amortised cost	95
14.	Trade and other receivables	107
15.	Financial liabilities at amortised costs	110
Financial instruments at fair value through profit or loss		**114**
16.	Derivative financial instruments	115
17.	Non-trading financial assets at fair value through profit or loss	117
Financial instruments – other disclosure matters		**117**
18.	Fair value of financial instruments	117
19.	Hedge accounting	126
20.	Offsetting of financial instruments	128
21.	Transfers of financial assets – repurchase transactions and securities lending	130
22.	Collaterals	132
Risk and capital management		**133**
23.	Risk management	133
24.	Own funds and capital requirements	139
25.	Credit risk	143
26.	Market risk	191
27.	Liquidity risk	194
28.	Operational risk	197
Non-current assets and other investments		**202**
29.	Property, equipment, investment properties and right of use assets	202
30.	Intangible assets	204
31.	Other assets	206
Leases		**206**
Accruals, provisions, contingent liabilities and legal proceedings		**211**
32.	Other liabilities	211
33.	Provisions	212
34.	Contingent liabilities	216
Capital instruments, equity and reserves		**217**
35.	Total equity	217
Scope of consolidation		**219**
36.	Subsidiaries	219
37.	Investments in associates and joint ventures	222
Other disclosure matters		**224**
38.	Related-party transactions and principal shareholders	224
39.	Audit fees and tax consultancy fees	226
40.	Analysis of remaining maturities	227
41.	Events after the balance sheet date	228
Statement of members of the Management Board		**228**

Consolidated statement of income

for the year ended 31 December 2021

EUR ths.	Notes	2020	2021
Net interest income	2	433,563	427,879
Interest income		445,075	421,311
Other similar income		18,127	39,478
Interest expenses		(21,580)	(18,206)
Other similar expenses		(8,059)	(14,704)
Net fee and commission income	3	147,150	174,277
Fee and commission income		170,330	194,582
Fee and commission expenses		(23,180)	(20,305)
Dividend income	4	628	602
Net trading result	5	12,226	9,794
Gains/losses from financial instruments measured at fair value through profit or loss	6	(2,912)	(767)
Net result from equity method investments		840	1,607
Rental income from investment properties & other operating leases	7	310	294
Personnel expenses	8	(158,290)	(155,194)
Other administrative expenses	8	(92,251)	(103,843)
Depreciation and amortisation	8	(36,529)	(33,354)
Gains/losses from derecognition of financial assets measured at amortised cost		1	1
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss		(16)	(2,643)
Impairment result from financial instruments	9	(107,939)	(1,099)
Other operating result	10	(49,260)	(15,529)
Levies on banking activities		(37,751)	(4,665)
Pre-tax result from continuing operations		**147,521**	**302,025**
Taxes on income	11	(39,529)	(73,971)
Net result for the period		**107,992**	**228,054**
Net result attributable to non-controlling interests		**18**	**(48)**
Net result attributable to owners of the parent		**107,974**	**228,102**

Earnings per share

Earnings per share constitute net profit/loss for the year attributable to owners of the parent divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) that would occur if all subscription and conversion rights granted were exercised (also see Note 35 Total equity). As in the previous year no subscription and conversion rights were outstanding during the financial year. Diluted earnings per share were equal to the basic earnings per share.

		2020	2021
Net result attributable to owners of the parent	EUR ths.	107,974	228,102
Number of outstanding shares	pcs.	212,000	212,000
Earnings per share	**EUR**	**509**	**1,076**

The notes on pages 67 to 228 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2021

For a detailed split of income tax items within other comprehensive income please refer to Note 11 Taxes on income.

EUR ths.	2020	2021
Net result for the period	**107,992**	**228,054**
Other comprehensive income		
Items that may not be reclassified to profit or loss	**7,832**	**(67)**
Remeasurement of defined benefit plans	(1,014)	(74)
Fair value reserve of equity instruments	10,690	(11)
Deferred taxes relating to items that may not be reclassified	(1,844)	18
Items that may be reclassified to profit or loss	**(238)**	**789**
Currency reserve	(238)	789
Gains/losses during the period	(238)	789
Total other comprehensive income	**7,594**	**722**
Total comprehensive income	**115,586**	**228,776**
Total comprehensive income attributable to non-controlling interests	**18**	**(48)**
Total comprehensive income attributable to owners of the parent	**115,568**	**228,824**

The notes on pages 67 to 228 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2021

EUR ths.	Notes	31.12.2020	31.12.2021
Assets			
Cash and cash balances	12	1,717,486	2,907,420
Financial assets held for trading	16	59,994	47,874
Derivatives		59,994	47,874
Non-trading financial assets at fair value through profit or loss	17	15,287	15,068
Equity instruments		7,547	7,155
Debt securities		7,740	7,913
Financial assets at amortised cost	13	18,258,897	19,496,688
Pledged as collateral		3,540,330	4,323,689
Debt securities		3,679,704	3,911,658
Loans and advances to banks		49	49,983
Loans and advances to customers		14,579,144	15,535,047
Finance lease receivables	31	241,012	233,435
Hedge accounting derivatives	19	34,345	16,454
Property and equipment, right-of-use assets	29	150,155	145,557
Investment properties	29	1,898	1,518
Intangible assets	30	18,947	18,947
Investments in associates	36,37	27,773	37,427
Deferred tax assets	11	76,980	69,107
Trade and other receivables	14	81,774	129,088
Other assets	31	21,738	35,692
Total assets		**20,706,294**	**23,154,275**
Liabilities and Equity			
Financial liabilities held for trading	16	56,524	46,131
Derivatives		56,524	46,131
Financial liabilities at amortised cost	15	18,653,506	20,849,566
Deposits from banks		1,710,255	2,893,347
Deposits from customers		14,869,015	15,972,763
Debt securities issued		2,051,731	1,946,930
Other financial liabilities		22,505	36,526
Lease liabilities		20,577	20,051
Hedge accounting derivatives	19	48,373	31,844
Provisions	33	31,836	43,213
Current tax liabilities	11	22,600	2,222
Other liabilities	32	80,584	110,711
Equity		1,792,294	2,050,537
Equity attributable to non-controlling interests		29	1,919
Equity attributable to owners of the parent	35	1,792,265	2,048,618
Subscribed capital		212,000	212,000
Additional equity instruments		300,000	380,000
Retained earnings and other reserves		1,280,265	1,456,618
Total liabilities and equity		**20,706,294**	**23,154,275**

The notes on pages 67 to 228 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2021

EUR ths.	Subscribed capital	Retained earnings and other funds: Legal reserve fund	Retained earnings and other funds: Other funds	Retained earnings and other funds: Retained earnings	Fair value reserve	Currency reserve	Remeasurement of defined benefit pension liabilities	Additional equity instruments	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 01.01.2021	**212,000**	**79,795**	**39,104**	**1,163,252**	**-**	**(194)**	**(1,692)**	**300,000**	**1,792,265**	**29**	**1,792,294**
Dividends paid / Distribution for Investment certificate	-	-	-	(53,926)	-	-	-	-	**(53,926)**	(18)	**(53,944)**
Capital increases	-	-	-	-	-	-	-	80,000	**80,000**	1,178	**81,178**
Changes in scope of consolidation and ownership interest	-	-	-	(1,659)	-	-	-	-	**(1,659)**	777	**(882)**
Reclassification from other comprehensive income to retained earnings	-	-	-	2	(2)	-	-	-	**-**	-	**-**
Other changes	-	-	-	3,115	-	-	-	-	**3,115**	-	**3,115**
Total comprehensive income	-	-	-	228,102	(9)	789	(58)	-	**228,824**	(48)	**228,776**
Net result for the period	-	-	-	228,102	-	-	-	-	**228,102**	(48)	**228,054**
Other comprehensive income	-	-	-	-	(9)	789	(58)	-	**722**	-	**722**
Change from remeasurement of defined benefit pension liabilities	-	-	-	-	-	-	(58)	-	**(58)**	-	**(58)**
Change in fair value reserve	-	-	-	-	(9)	-	-	-	**(9)**	-	**(9)**
Change in currency reserve	-	-	-	-	-	789	-	-	**789**	-	**789**
As of 31.12.2021	**212,000**	**79,795**	**39,104**	**1,338,886**	**(11)**	**595**	**(1,750)**	**380,000**	**2,048,619**	**1,918**	**2,050,537**

As at 31 December 2021 the impact of deferred tax included in ´Fair value reserve´ amounts EUR 0.0 million (2020: EUR -17.5 million) and the impact of deferred tax included in ´Remeasurement of defined pension liabilities´ amounts EUR 0.0 million (2020: EUR 0.2 million). For more details on deferred tax please refer to note 11.

EUR ths.	Subscribed capital	Retained earnings and other funds			Fair value reserve	Currency reserve	Remeasurement of defined benefit pension liabilities	Additional equity instruments	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
		Legal reserve fund	Other funds	Retained earnings							
As of 01.01.2020	**212,000**	**79,795**	**39,104**	**1,073,899**	**65,962**	**44**	**(891)**	**150,000**	**1,619,913**	**30**	**1,619,943**
Dividends paid / Distribution for Investment certificate	-	-	-	(93,089)	-	-	-	-	**(93,089)**	(19)	**(93,108)**
Capital increases	-	-	-	-	-	-	-	300,000	**300,000**	-	**300,000**
Capital decreases	-	-	-	-	-	-	-	(150,000)	**(150,000)**	-	**(150,000)**
Reclassification from other comprehensive income to retained earnings	-	-	-	74,595	(74,595)	-	-	-	**-**	-	**-**
Other changes	-	-	-	(127)	-	-	-	-	**(127)**	-	**(127)**
Total comprehensive income	-	-	-	107,974	8,633	(238)	(801)	-	**115,568**	18	**115,586**
Net result for the period	-	-	-	107,974	-	-	-	-	**107,974**	18	**107,992**
Other comprehensive income	-	-	-	-	8,633	(238)	(801)	-	**7,594**	-	**7,594**
Change from remeasurement of defined benefit pension liabilities	-	-	-	-	-	-	(801)	-	**(801)**	-	**(801)**
Change in fair value reserve	-	-	-	-	8,633	-	-	-	**8,633**	-	**8,633**
Change in currency reserve	-	-	-	-	-	(238)	-	-	**(238)**	-	**(238)**
As of 31.12.2020	**212,000**	**79,795**	**39,104**	**1,163,252**	**-**	**(194)**	**(1,692)**	**300,000**	**1,792,265**	**29**	**1,792,294**

For more details on the transaction of AT1 certificate issue included in the line item ´Capital increases/ decreases´ please refer to note 35.

During the year 2020 the Bank sold its share in the company Mastercard Incorporated and Visa Inc. due to the fact that the reasons for holding of this share as a strategic business decision of the Bank have passed. Additionally, the Bank also reclassified Class C convertible shares of Visa Inc. from equity instrument under ´Financial assets at fair value through other comprehensive income´ category to the debt instrument under ´Non-trading financial assets at fair value through profit or loss´ category as a result of classification reassessment after new technical interpretations of contractual features.

The notes on pages 67 to 228 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2021

EUR ths.	2020	2021
Profit before income taxes	**147,521**	**302,025**
Non-cash adjustments for:		
Loss allowances for loans and advances, Provisions for off-balance sheet	107,918	1,172
Provisions for liabilities and other liabilities	(3,934)	(105)
Impairment of tangible and intangible assets net	(1,812)	(1,546)
Depreciation and amortization	36,529	33,356
Profit/(loss) on disposal of fixed assets	2,749	161
Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	(90)	2,172
Accrued interest, amortisation of discount and premium	11,566	16,543
Transfer of dividends received to investing activities	(705)	(562)
Cash flows from operations before changes in operating assets and liabilities	**299,742**	**353,216**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	(1,266,247)	(1,129,869)
Financial assets held for trading	(18,571)	12,120
Non-trading financial assets at fair value through profit or loss	641	331
Equity instruments	9,000	504
Debt securities	(8,359)	(173)
Financial assets at fair value through other comprehensive income	(10,533)	-
Financial assets at amortised cost	(1,030,031)	(1,289,356)
Debt securities	(153,206)	(250,137)
Loans and advances to banks	5	(50,044)
Loans and advances to customers	(876,830)	(989,175)
Finance lease receivables	(27,821)	7,577
Hedge accounting derivatives	(11,325)	17,891
Trade and other receivables	25,365	(47,314)
Other assets from operating activities	12,897	(13,963)
Increase / (decrease) in operating liabilities:		
Financial liabilities held for trading	16,500	(10,393)
Financial liabilities measured at amortised cost	1,902,952	2,301,947
Deposits from banks	1,446,968	1,183,092
Deposits from customers	477,694	1,104,834
Other financial liabilities	(21,710)	14,021
Hedge accounting derivatives	332	(16,529)
Provisions	17,475	11,353
Other liabilities from operating activities	(3,463)	27,707
Net cash flows provided by / (used in) operating activities before income tax	***(92,087)***	***224,718***

Table continues on the following page.

EUR ths.	2020	2021
Net cash flows provided by / (used in) operating activities before income tax	***(92,087)***	***224,718***
Income taxes paid	(51,603)	(84,042)
Net cash flows provided by / (used in) operating activities	**(143,690)**	**140,676**
Cash flows from investing activities		
Dividends received from associates and other investments	705	562
Purchase of share in associates	-	(9,655)
Proceeds from sale of investments	94,560	-
Capital increase in subsidiaries and associates	-	2,000
Purchase of intangible assets, property and equipment	(30,602)	(21,154)
Proceeds from sale of intangible assets, property and equipment	3,815	796
Net cash flows provided by / (used in) investing activities	**68,478**	**(27,451)**
Cash flows from financing activities		
Dividends paid	(93,107)	(53,926)
AT1 certificate - issue	150,000	80,000
Repayment of subordinated debt	(10,000)	(10,000)
Issue of subordinated debt	30,000	-
Issue of the bonds	161,739	232,417
Repayment of the bonds	(205,455)	(295,591)
Lease liabilities	(6,949)	(6,735)
Net cash flows provided by / (used in) financing activities	**26,228**	**(53,835)**
Effect of foreign exchange rate changes on cash and cash equivalents	(1,218)	675
Net increase / (decrease) in cash and cash equivalents	**(50,202)**	**60,065**
Cash and cash equivalents at beginning of period	**413,554**	**363,352**
Cash and cash equivalents at end of period	**363,352**	**423,417**
Operational cash flows from interest and dividends (included in cash flow from operating activities)	**379,370**	**349,420**
Income taxes paid	(51,603)	(84,042)
Interest paid	(12,631)	(43,752)
Interest received	442,898	476,652
Dividends received	705	562

Cash and cash equivalents are equal to cash in hand, cash balances at central banks and other demand deposits. Further information related to net debt reconciliation are provided in note 15.

The notes on pages 67 to 228 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Slovenská sporiteľňa, a.s. (hereafter 'the Bank' or 'the Group') has its registered office at Tomášikova 48, 832 37 Bratislava, Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653. The tax identification number of the Bank is 2020411536.

The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial and private customers, principally in the Slovak Republic.

As of 31 December 2021, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ('ERSTE Foundation'), a foundation, holds together with its partners in shareholder agreements the share in Erste Group Bank AG and represents the main stakeholder with significant influence. Ultimate parent for Slovenská sporiteľňa, a.s. is Erste Group Bank AG.

The Board of Directors of the Bank had four members as at 31 December 2021:
Ing. Peter Krutil (chairman), Ing. Pavel Cetkovský (member), RNDr. Milan Hain, PhD. (member) and Mgr. Ing. Norbert Hovančák (member).

Mgr. Zdeněk Románek resigned as a member of the Board of Directors of the Bank on 30th November 2021 based on his own decision.

The chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The deputy chairman of the Board of Directors is the first deputy of the Chief Executive Officer. Other members of the Board of Directors are the deputies of the Chief Executive Officer. In 2021, the deputy chairman of the Board of Directors was not appointed.

The Supervisory Board of the Bank had five members as at 31 December 2021:
Ing. Stefan Dörfler (chairman), Mag. Jan Homan (vice-chairman), Paul Formanko, MBA (member), JUDr. Vazil Hudák (member) and JUDr. Beatrica Melichárová (member).

Former member of the Supervisory Board Mgr. Alena Adamcová (employee representative on the Supervisory Board) expired the mandate on 2nd November 2021.

As at 31 December 2021, two members resigned as members of the Supervisory Board. Ing. Stefan Dörfler resigned due to the fact that he became the Chairman of the Supervisory Board in another bank from the EGB Group and JUDr. Beatrica Melichárová (employee representative on the Supervisory Board) resigned based on her own decision.

The Group is subject to various regulatory requirements of local, Slovak regulatory bodies defined by Slovak legislation as well as European regulatory bodies defined by EU legislation.

The Bank is under direct supervision of the European Central Bank within a Single Supervision Mechanism.

These consolidated financial statements are statements of the Bank and its subsidiaries and associates (the Group) that are disclosed in note 36 and 37.

These consolidated financial statements have been prepared and authorized for issue by the management board as at the signing date of this report. However these consolidated financial statements are subject of approval on the supervisory board (23 February 2022) and the annual general meeting (22 March 2022).

Significant accounting policies

a) Basis of preparation

The consolidated financial statements of the Group for the financial year ending on 31 December 2021 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in respective parts of these statements. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Measurement bases or bases used in the financial statements (like amortised cost, fair value, atc.) are set our in respective parts of these statements.

The consolidated financial statements have been prepared on a going concern basis.

The Group is subject to regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU. As a consequence of the COVID-19 crisis, the European Central Bank as well as some local national banks issued recommendations to restrict dividend payouts. However the Bank could pay dividend to its parent company Erste Group Bank AG, for more details see Note 35. The Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

Except as otherwise indicated, all amounts are stated in thousands of EUR ('EUR ths.'). The tables in this report may contain rounding differences.

b) COVID-19 disclosures

In the consolidated financial statements of the Group, considerations and significant impacts of the COVID-19 outbreak are presented in those chapters to which they can be assigned thematically. An overview about these disclosures is presented in the following:

The chapter 'c) Accounting and measurement methods' discusses the accounting and measurement methods used for public moratoria and payment holidays, public guarantees including significant effects of those topics on the consolidated financial statements in 2021.
The chapter 'd) Significant accounting judgements, assumptions and estimates' contains information about the key sources of estimation uncertainty in the light of the COVID-19 outbreak.
Note 25 Credit risk contains a separate sub-chapter 'COVID-19' which explains the considerations of the pandemic on the ECL measurement, sensitivity analyses and information on credit exposures subject to certain COVID-19 measures.

c) Accounting and measurement methods

Foreign currency translation

The consolidated financial statements are presented in Euro, which is the functional currency of the bank, the parent company of the Group. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. At the date of the issue of these consolidated financial statements the Group includes only Holding Card Service s.r.o. as a company for which functional currency is not Euro, but Czech crowns. This entity is consolidated at equity in to the Group financial statements.
For foreign currency translation, exchange rates quoted by the central banks in each country are used. For the Groups entities with the Euro as functional currency, these are the European Central Bank reference rates.

i. Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions, i.e. they do not give rise to exchange differences. Non-monetary items that are measured at fair value (such as equity investments) in a foreign currency are translated using the exchange rates at the date when the fair value is measured, thus the exchange differences are part of the fair value gains or losses.

Accounting treatment of issues related to COVID-19

i. Public moratoria and payment holidays

In light of the spread of COVID-19, a variety of measures have been taken by Slovak government aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans, overdraft facilities and mortgages. Further, some the Group is offering renegotiations of repayment schedules and payment holidays on a voluntary basis to customers facing liquidity shortages.

The public moratoria in general relate to customers which were performing and to their exposures existing before the outbreak of COVID-19 pandemic. Public moratoria are based on an opt-in approach meaning that customers have to ask the bank for the payment reliefs. The range of payment deferral periods was originally enacted between 3 to 9 months. Interest continues to accrue on the outstanding balance during the moratorium period. Nevertheless, an economic loss is incurred as a result of increased credit loss allowances. However modification losses are not recognised from accounting perspective due to immateriality.

Moratoria modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. The accounting policies disclosed in chapter "Financial instruments – Significant accounting policies", part "Derecognition of financial instruments including treatment of contractual modifications" apply.

The public moratoria and payment holidays applied in the Group did not lead to derecognition. In particular, this is because the moratoria and payment holidays are typically below one year and in most cases the contractual interest continues to accrue during the suspension phase. Thus the present value effect of the modification (discounted at pre-modification effective interest rate) is less than 10%.

In the statement of income, the modification gain or loss, if any occurred, is presented in the line 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss, if any, is presented in the line 'Impairment result from financial instruments'.

With respect to the assessment of significant increases in credit risk (SICR), the Group does not consider the public moratoria and payment holidays in itself as automatic SICR triggers but applies its specific assessment rules consisting of qualitative information and quantitative thresholds. Details on this assessment and other considerations on the expected credit loss estimation in the light of the COVID-19 outbreak are described in Note 25 Credit risk.

Most of the moratoria expired in January and February and the Bank released approximately EUR 8 mil. of provisions in Retail and EUR 16 mil. in Corporate portfolio.

ii. Public guarantees

In their efforts to mitigate the economic effects of COVID-19, Slovak government are providing public guarantees on banks' exposures. The relevant accounting policy for financial guarantees is disclosed in note 33 Provisions, part Financial guarantees. Financial guarantees received in the context of public COVID-19 measures typically related to new credit facilities and are therefore considered as integral. Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets. The existence of such credit enhancements does not affect the SICR assessment.

iii. Impairment of financial instruments

One of contributors to the impairment allocation in the line item „Impairment result from financial instruments" is directly attributable to changes in macro environment and management actions to identify mostly affected portfolios due to COVID-19 pandemic. Observed deteriorations in credit portfolios, which were also significantly driven by COVID-19 situation, are the main reason for the remaining impairment allocation in 2020. However in 2021 adverse positive effects have been recognized on line item "Impairment result from financial instruments" as a result of positive development of credit risk of customers.

Details on the effects of COVID-19 on the expected credit loss estimation are described in Note 25 Credit risk.

d) Accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are described in the notes of the respective assets and liabilities and relate in particular to:

- SPPI assessement of financial instruments (Chapter Financial instruments – Significant accounting policies)
- Business model assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)
- Fair value of financial instruments (Note 18 Fair value of financial instruments)
- Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Note 25 Credit risk)

The COVID-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect Group's financial performance and position, including significant impacts for expected credit losses, as well as impacts on operating income and other non-financial assets impairment assessments. All effects that could be reasonably estimated were recognised by 2021 end. The Group will continue to follow the developments closely and will recognise any effects as the situation further unfolds.

e) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2021. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2021 and have been endorsed by the EU:

_ Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

_ Amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021

Application of the above mentioned amendments in 2021 did not have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective

The standards and amendments shown below were issued by the IASB but are not yet effective.

Following amendments to standards are already endorsed by the EU:
_ Annual Improvements to IFRSs 2018-2020 Cycle
_ IFRS 17: Insurance contracts

Following standards and amendments and interpretations have not yet been endorsed by the EU until the date of approval of these financial statements:
_ Amendments to IAS 1: Disclosure of Accounting Policies
_ Amendments to IAS 8: Definition of Accounting Estimates
_ Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Annual Improvements to IFRSs 2018-2020 Cycle. In May 2020, the IASB issued a set of amendments to various standards. The amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 9 clarifies that only fees paid or received between the entity (the borrower) and the lender are included in applying the '10 per cent' test for derecognition of a financial liability. Application of these amendments is not expected to have a significant impact on Group's financial statements.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Group is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Group will estimate the effect on its financial statements when this has been clarified.

Amendments to IAS 1: Disclosure of Accounting policies. The amendments to IAS 1 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that an entity is required to disclose its material accounting policy information. A guidance was added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. Application of these amendments is not expected to have a significant impact on Group's financial statements. However, revisions in the disclosures of the accounting policies may be required.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments to IAS 12 were issued In March 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that the initial recognition exemption stipulated in IAS 12.15(b) and IAS12.24 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Application of these amendments is not expected to have a significant impact on Group's financial statements.

PERFORMANCE / RETURN

1. Segment reporting

The segment reporting of the Group is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Group the function of the chief operating decision maker is executed by the Board of Directors. In addition, the Group's segment reporting follows the standards of the Erste Group issued for the purpose to unify presentation, measurement and steering of the Group.

Business segments

The segment reporting comprises four business segments reflecting management structure of the Group and its internal management reporting in 2021.

The Group applies account manager principle for the definition of segments / business lines. It means that each client has assigned one account manager from a particular segment / business line. Subsequently, profit or loss on business transactions with the client is allocated to that account manager.

Retail segment comprises the entire business activities with private individuals, free professionals and micros, which are in the responsibility of account managers in the Retail network. Retail products and services, including current accounts and savings, loans pledged by real estate, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance, asset management products and building society products) are offered via various distribution channels, such as branch network and digital banking. The Retail segment is divided into 8 regions and 200 branches (status as at 31 December 2021).

Corporates segment The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business.

Asset Liability Management (ALM), Local Corporate Center (LCC) segment and Free Capital (FCAP) Segment comprises on the one side the management of Bank's assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions. On the other side it also includes the local corporate center which comprises all non-core banking business activities such as non-profit servicing participations, intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets) which cannot be allocated to other business segments. Apart from that the Local Corporate Center includes received dividends and reconciliations to the accounting result. The segment comprises also Free Capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to all operating segments.

Group Markets (GM) segment comprises trading and markets services, as well as business with financial institutions. This segment is divided into Treasury trading and market services (GMT) and Financial institutions (GMFI):

- Treasury trading and Market services (GMT) comprises all activities related to active risk taking and managing in regulatory trading books of the Group, additional to that the execution of trades against the market using the trading books of the Group for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.
- Financial institutions (GMFI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Measurement

The profit and loss statement of the segment report is based on the measures reported to the Group's Board of Directors for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report of Group are based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated financial statements of accounting.

Interest revenues are not reported separately from interest expenses for each reportable segment. Those measures are reported on the net basis within the position 'Net interest income' as interest revenues and interest expenses are neither included into the measure of segment profit or loss reviewed by the chief operating decision maker nor otherwise regularly provided to the chief operating decision maker. Chief operating decision maker relies solely on net interest income to assess the performance of the segments and make decisions about resources to be allocated to the segments. Net fee and commission income and Other operating result are reported on a net basis according to the regular reporting to the chief operating decision maker.

Capital consumption per segment is regularly reviewed by the management of the Group to assess the performance of the segments. The average allocated equity is determined by credit risk, market risk and operational risk. In line with the regular internal reporting prepared for the Board of Directors, total assets, total liabilities, as well as risk weighted assets and allocated equity are disclosed per segment. Total average allocated capital for the Group equals average total equity of the Group. For measuring and assessing the profitability of segments within the Group, such key measures as return on allocated capital and cost/income ratio are used.

Return on allocated capital is defined as net result for the period before minorities in relation to the average allocated capital of the respective segment. Cost/income ratio is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading result, gains/losses from financial instruments measured at fair value through profit or loss, net result from equity method investments, rental income from investment properties and other operating lease).

Business Segments	Retail		Corporates		Group markets		Asset Liability Management, Local Corporate Center and Free Capital		Total	
EUR ths.	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Net interest income	317,216	259,564	84,747	92,081	1,506	784	30,094	75,450	433,563	427,879
Net fee and commission income	123,302	141,399	20,043	24,056	9,703	14,259	(5,898)	(5,437)	147,150	174,277
Dividend income	-	-	-	-	-	-	628	602	628	602
Net trading result	3,179	4,309	2,592	3,808	1,991	2,416	4,464	(739)	12,226	9,794
Gains/losses from financial instruments at FVPL	-	-	-	-	-	-	(2,912)	(767)	(2,912)	(767)
Net result from equity method investments	840	(1)	-	-	-	-	-	1,608	840	1,607
Rental income from investment properties & other operating leases	-	-	-	-	-	-	310	294	310	294
General administrative expenses	(248,890)	(250,690)	(33,967)	(37,722)	(5,008)	(4,801)	795	822	(287,070)	(292,391)
Gains/losses from derecognition of financial assets at AC	-	-	-	-	-	-	1	1	1	1
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	(16)	(2,643)	(16)	(2,643)
Impairment result from financial instruments	(13,033)	(12,259)	(95,490)	11,515	47	17	537	(372)	(107,939)	(1,099)
Other operating result	(24,906)	(849)	(3,807)	(1,420)	(1,693)	(656)	(18,854)	(12,604)	(49,260)	(15,529)
Levies on banking activities	(24,903)	(846)	(3,799)	(1,119)	(1,722)	(656)	(7,327)	(2,044)	(37,751)	(4,665)
Pre-tax result from continuing operations	**157,708**	**141,473**	**(25,882)**	**92,318**	**6,546**	**12,019**	**9,149**	**56,215**	**147,521**	**302,025**
Taxes on income	(32,920)	(29,710)	5,436	(19,387)	(1,375)	(2,524)	(10,670)	(22,350)	(39,529)	(73,971)
Net result for the period	**124,788**	**111,763**	**(20,446)**	**72,931**	**5,171**	**9,495**	**(1,521)**	**33,865**	**107,992**	**228,054**
Net result attributable to non-controlling interests	-	-	-	-	-	-	18	(48)	18	(48)
Net result attributable to owners of the parent	**124,788**	**111,763**	**(20,446)**	**72,931**	**5,171**	**9,495**	**(1,539)**	**33,913**	**107,974**	**228,102**
Operating income	444,535	405,272	107,383	119,945	13,200	17,460	26,687	71,009	591,805	613,686
Operating expenses	(248,890)	(250,690)	(33,967)	(37,722)	(5,008)	(4,801)	795	822	(287,070)	(292,391)
Operating result	**195,645**	**154,582**	**73,416**	**82,223**	**8,192**	**12,659**	**27,482**	**71,831**	**304,735**	**321,295**
Risk-weighted assets* (credit risk, eop)	3,036,640	3,693,551	4,012,681	4,134,638	6,332	4,740	547,537	258,803	7,603,190	8,091,732
Average allocated capital**	419,823	462,059	361,790	453,948	5,682	5,218	313,116	360,628	1,100,411	1,281,853
Cost/income ratio	55.99%	61.86%	31.63%	31.45%	37.94%	27.50%	-2.98%	-1.16%	48.51%	47.65%
Return on allocated capital	29.72%	24.19%	-5.65%	16.07%	91.02%	181.95%	-0.49%	9.40%	9.82%	17.79%
Total assets (eop)	10,782,822	11,447,922	4,300,739	4,577,766	19,455	76,465	5,603,278	7,052,122	20,706,294	23,154,275
Total liabilities excluding equity (eop)	13,182,842	14,021,082	1,508,373	1,683,274	310,261	348,205	3,912,524	5,051,177	18,914,000	21,103,738
Impairments	**(13,033)**	**(12,260)**	**(95,490)**	**11,515**	**47**	**17**	**537**	**(371)**	**(107,939)**	**(1,099)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(12,356)	(12,153)	(85,227)	19,847	36	17	537	(374)	(97,010)	7,337
Net impairment loss on commitments and guarantees given	(677)	(107)	(10,263)	(8,332)	11	-	-	3	(10,929)	(8,436)

* Credit RWA (eop) after inter company transactions according to Pillar 1, calculated by Erste Group for the purpose of segment report and management purposes (without subsidiaries Credit RWA)

** Average allocated capital is calculated based on Erste Group controlling methodology.

2. Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments – Significant accounting policies'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relate to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments – Significant accounting policies'.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, negative interest on financial assets, lease liabilities, provisions recognised under IFRS 9 and IAS 37 (unwinding of the time value of the money effect due to passage of time) and net defined benefit plan liabilities (net interest cost on severance payments, pensions and jubilee obligations) under IAS 19.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, on debt securities in all measurement categories of financial assets, on trade and other receivables and on finance lease receivables. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities and interest paid on lease liabilities. Net interest income also includes interest on derivative financial instruments. Interest income also includes modification gains and losses recognised on financial assets in Stage 1. Further, the unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

EUR ths.	2020	2021
Financial assets at AC	445,075	421,311
Demand deposits	9	4
Loans and advances	349,703	332,841
Debt securities	95,363	88,466
Interest income	**445,075**	**421,311**
Non-trading financial assets at FVPL	-	6
Financial assets HfT	15,152	14,959
Hedge accounting derivatives, interest rate risk	(9,410)	(8,290)
Other assets	5,432	4,992
Negative interest from financial liabilities	6,953	27,811
Other similar income	**18,127**	**39,478**
Interest and other similar income	**463,202**	**460,789**
Financial liabilities at AC	(21,580)	(18,206)
Deposits	(5,888)	(4,813)
Debt securities in issue	(15,692)	(13,393)
Interest expenses	**(21,580)**	**(18,206)**
Financial liabilities HfT	(13,245)	(12,869)
Hedge accounting derivatives, interest rate risk	5,581	7,163
Other liabilities	(34)	68
Negative Interest from financial assets	(361)	(9,066)
Other similar expenses	**(8,059)**	**(14,704)**
Interest and other similar expenses	**(29,639)**	**(32,910)**
Net interest income	**433,563**	**427,879**

An amount of EUR 6.4 million (2020: EUR 7.5 million) relating to impaired financial assets is included in interest income.

The amounts disclosed in the line items ‘Negative interest from financial liabilities’ and ‘Negative interest from financial assets’ relate to the interbank business, deposits and refinancing with central banks only.

Interest expenses on financial liabilities at amortised cost presented in line item ‘Negative interest from financial liabilities’ include also catch-up gains from TLTRO III in the amount of EUR 27.8 million (2020: EUR 0 million) a result of reassessment of expected eligibility for the reduced interest. For more details refer to Note 15 Financial liabilities at amortised costs.

Interest income from hedging instruments relates to the hedged items presented in the line item ‘Financial assets at amortised cost’. Interest expense from hedging instruments relates to the hedged items presented in the line item ‘Financial liabilities at amortised cost’.

3. Net fee and commission income

The Group earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products, are recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

A contract with a customer that results in the recognition of a financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

EUR ths.	2020		2021	
	Income	Expenses	Income	Expenses
Securities	3,887	(1,415)	4,147	(840)
Issues	143	-	127	-
Transfer orders	1,828	(1,408)	991	(521)
Other	1,916	(7)	3,029	(319)
Custody	2,457	(1,300)	3,202	(1,840)
Collective investment	578	-	810	-
Other	1,879	-	2,392	-
Payment services	98,671	(15,524)	107,395	(10,385)
Card business	38,698	(11,467)	43,343	(6,858)
Other	59,973	(4,057)	64,052	(3,527)
Customer resources distributed but not managed	48,239	(1,190)	59,034	(91)
Collective investment	11,554	-	20,367	-
Insurance products (as agent)	36,674	(1,190)	38,643	(91)
Other	11	-	24	-
Lending Business	16,711	(3,581)	20,221	(5,078)
Guarantees given, guarantees received	4,029	(14)	4,619	(12)
Loan commitments given, loan commitments received	3,229	-	4,101	-
Other lending business	9,453	(3,567)	11,501	(5,066)
Other	367	(172)	583	(2,075)
Total fee and commission income and expenses	**170,330**	**(23,180)**	**194,582**	**(20,305)**
Net fee and commission income	**147,150**		**174,276**	

Collective investment in the line ´Customer resources distributed but not managed´ and custody fees relate to fees earned by the Group on trust and other investment activities in which the Group holds or invests assets on behalf of its customers and amount to EUR 13,762.4 million (2020: EUR 12,130.0 million).

4. Dividend income

EUR ths.	2020	2021
Non-trading financial assets at fair value through profit or loss	493	587
Financial assets at fair value through other comprehensive income	135	15
Financial assets at amortised cost	-	-
Dividend income	**628**	**602**

Dividend income is recognised when the right to receive the payment is established. This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at fair value through profit or loss and at fair value through other comprehensive income.

5. Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. Further, the net trading result includes any ineffective portions recorded in fair value hedge transactions. Also, foreign exchange gains and losses on all monetary assets and liabilities and from spot currency conversions are included here.
The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Significant accounting policies, Accounting and measurement methods, Foreign currency translations, i. Transactions and balances in foreign currency. Detailed information relating to hedge accounting can be found in Note 19 Hedge accounting.

The Group has adopted a business model of centralised financial markets trading in cooperation with its parent company. Within this model Erste Group Bank AG conducts all trading operations on a central trading book in order to manage effectively market risks from the Group trading activities (i.e. transactions with retail, corporate and other institutional clients), with the exception of equity risk trading and transactions for the Group's liquidity management purposes.

Trading gains from the market positions of Erste Group Bank AG are distributed according to the approved rules to local banks within the Group based on their financial results and are reported in the income statement line item 'Net trading result'. The basic principle underlying these rules is that Erste Group Bank AG absorbs potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. This business model of financial markets trading also includes reallocation of trading costs to the participating subsidiaries of Erste Group Bank AG based on their cost/income ratio.

EUR ths.	2020	2021
Securities trading	1,492	1,662
Derivatives trading	10,395	8,190
Result from hedge accounting	339	(58)
Net trading result	**12,226**	**9,794**

The line item 'Securities trading' includes net gains from the Erste Group Bank AG's market positions attributable to the Group.

6. Gains/losses from financial instruments measured at fair value through profit or loss

Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented under this line item. This concerns non-trading financial assets mandatorily measured at fair value through profit or loss.

EUR ths.	2020	2021
Result from measurement/sale of financial assets mandatorily at FVPL	(2,912)	(767)
Gains/losses from financial instruments measured at fair value through profit or loss	**(2,912)**	**(767)**

7. Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term. Operating expenses for investment properties are reported in line item 'Other operating result'. For further details we refer to Note 10 Other operating result.

Rental income is generated from rented premises classified as investment properties.

EUR ths.	2020	2021
Investment properties	265	262
Other operating leases	45	32
Rental income from investment properties & other operating leases	**310**	**294**

8. General administrative expenses

Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service costs for severance payments, pension and jubilee obligations and remeasurements of jubilee obligations. Furthermore, restructuring provision expenses may be part of personnel expenses.

Expense for defined contribution plans is presented under the line "Compulsory social security" in the table below". Service costs related to pension and jubilee provisions was recognized in amount of EUR 0.5 million (2020: EUR 0.6 million), actuarial gain/loss for jubilee provision was recognized in amount of EUR 0.2 million – gain (2020: EUR 0.5 million – loss).

Detailed information about remuneration of management including performance-linked remuneration can be found in Note 38 Related-party transactions and principal shareholders.

As at 31 December 2021 the Group had 3,644 employees, thereof four members of the Board of Directors. As at 31 December 2020 the Group had 3,770 employees, thereof five members of the Board of Directors.

All employees of the Group, who were employed for more than 6 months as of 31 December 2021, will receive free shares of Erste Group Bank AG in an amount equivalent to EUR 350 net that the Group is obliged to provide for its employees, provided that the Annual General Meeting of Erste Group Bank AG 2022 decides to distribute dividends. Therefore, based on the number of the entitled employees, personnel expenses in the amount of EUR 2.3 million as well as the corresponding other liability were recognized for this cash-settled shared-based payment.

Other administrative expenses

Other administrative expenses include primarily information technology expenses, expenses for office space, office operating and administrative expenses, advertising and marketing, and expenditures for legal and other consultants. Furthermore, the line item contains deposit insurance contributions. Restructuring provision expenses may also be presented in other administrative expenses.

Expenses for leases complying with recognition exemptions for short-term leases (less than 12 months) and leases of low-value items under IFRS 16 are disclosed in the category ´Other administrative expenses´ under the line item ´ Expenses for office space´ in total amount of EUR 0.7 million (2020: EUR 0.8 million).

The Group is legally obliged to make a contribution to the Deposit Protection Fund, which is accounted for in accordance with the IFRIC 21. The amount of this annual contribution is calculated based on the Group's customer deposit liabilities. The contribution to the Deposit Protection Fund was paid in June 2021.

Depreciation and amortization

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets. In the line item 'Depreciation and amortisation', also the depreciation of right-of-use assets according to IFRS 16 is disclosed.

EUR ths.	2020	2021
Personnel expenses	**(158,290)**	**(155,194)**
Wages and salaries	(113,232)	(108,805)
Compulsory social security	(38,134)	(38,269)
Long-term employee provisions	(1,068)	(346)
Other personnel expenses	(5,856)	(7,774)
Other administrative expenses	**(92,251)**	**(103,843)**
Deposit insurance contribution	(1,058)	(9,426)
IT expenses	(43,842)	(48,167)
Expenses for office premises	(12,862)	(11,842)
Office operating and administrative expenses	(10,702)	(10,504)
Advertising/marketing	(14,247)	(14,541)
Legal and consulting costs	(3,372)	(3,135)
Sundry administrative expenses	(6,168)	(6,228)
Depreciation and amortisation	**(36,529)**	**(33,354)**
Software and other intangible assets	(11,122)	(7,448)
Owner occupied real estate	(16,664)	(17,076)
Investment properties	(215)	(206)
Office furniture and equipment and sundry property and equipment	(8,528)	(8,624)
General administrative expenses	**(287,070)**	**(292,391)**

9. Impairment result from financial instruments

Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies. The impairment result also includes recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2 and Stage 3 and POCI assets could be included in this line item. Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are presented as part of the impairment result.
Impairment result from financial instruments relates those instruments that are accounted under IFRS 9. Additional impairment results from financial instruments that are not accounted under IFRS 9 is disclosed in note 8.

EUR ths.	2020	2021
Financial assets at AC	(95,717)	6,875
Net allocation/release to credit loss allowances	(97,535)	10,314
Direct write-offs	(775)	(3,969)
Recoveries recorded directly to the income statement	2,593	530
Finance lease receivables	(1,293)	462
Net allocation/release to credit loss allowances	(1,314)	460
Direct write-offs	(7)	(10)
Recoveries recorded directly to the income statement	28	12
Credit loss allowances for loan commitments and financial guarantees given	(10,929)	(8,436)
Impairment result from financial instruments	**(107,939)**	**(1,099)**

The following table reconciles the movements of credit risk allowances disclosed in notes 13, 14, 33 and chapter Leases, part Finance lease receivables to Impairment result from financial instruments disclosed in Income statement. The reconciliation specifies items that represents movements in credit risk allowances that are not recognized through income statement.

EUR ths.	2020	2021
Net movements from notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**(57,662)**	**39,789**
Financial assets at amortised cost	(44,345)	49,605
Finance lease receivables	(1,242)	472
Trade and other receivables	(1,146)	(1,852)
Commitments and financial guarantees given	(10,929)	(8,436)
Items not recognized through income statement - use	**68,071**	**48,493**
Financial assets at amortised cost	65,987	48,038
Finance lease receivables	-	-
Trade and other receivables	2,084	455
Commitments and financial guarantees given	-	-
Items recognized through income statement – net allocations and releases	**(125,733)**	**(8,704)**
Financial assets at amortised cost	(110,332)	1,567
Finance lease receivables	(1,242)	472
Trade and other receivables	(3,230)	(2,307)
Commitments and financial guarantees given	(10,929)	(8,436)
Impairment result from financial instruments	**(107,939)**	**(1,099)**
Items reconciled to movements in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**(125,733)**	**(8,704)**
Net allocation of loss allowances	(114,804)	(268)
Net allocation of loss allowances for commitments and guarantees given	(10,929)	(8,436)
Items not recognized as movement in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**17,794**	**7,605**
Unwinding correction	15,976	11,041
Direct write-offs	(775)	(3,979)
Recoveries recorded directly to the income statement	2,593	543

10. Other operating result

The other operating result reflects all other income and expenses not directly attributable to the Group's ordinary activities.
In particular this includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets. Any impairment losses on goodwill are also included in this line item. The main reasons for impairment losses to be recognized are summarized hereinafter:

- not fully occupied buildings that triggered a lower recoverable amount
- recurring measurement for own used items of property at the balance sheet date and
- concessions and other intangibles for which measurable economic benefits are no longer expected in the future

In addition, the other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.
Furthermore, levies on banking activities are considered as part of the other operating result. The Group recognises a liability or a provision for the levy when the activity that triggers payment, as identified by the relevant legislation, occurs. In the statement of income levies are reported in under 'Other operating result'.

EUR ths.	2020	2021
Other operating expenses	**(59,524)**	**(37,044)**
Allocation to other provisions	(6,308)	(21,735)
Levies on banking activities	(37,751)	(4,665)
Banking tax	(33,757)	-
Recovery and resolution fund contributions	(3,994)	(4,665)
Other taxes	(219)	(199)
Impairment of associates	(8,137)	(3,895)
Other	(7,109)	(6,550)
Other operating income	**10,264**	**21,517**
Release of other provisions	5,884	17,343
Result from properties/movables/other intangible assets other than goodwill	221	1,800
Result from other operating expenses/income	4,159	2,374
Other operating result	**(49,260)**	**(15,527)**

Operating expenses (including repair and maintenance) for investment properties held for rental income totalled to EUR 0.0 million (2020: EUR 0.0 million).

Levies on banking activities

In the line 'Recovery and resolution fund contributions' contributions to the national resolution funds in amount of EUR 4.7million (2020: EUR 4.0 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in a first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means of the resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore the resolution funds have to be built over a period of 10 years, during which the contributions shall be spread out as even as possible until the target level is reached.

Banking tax was cancelled from 1st January 2021 based on regulation No. 353/2020.

11. Taxes on income

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Accounting judgements, assumptions and estimates

The determination of tax bases are underlying a general level of uncertainty by nature, as interpretation of tax legislation might require judgement. Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used.
Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years and the change in deferred taxes.

EUR ths.	2020	2021
Current tax expense / income	(54,034)	(66,082)
current period	(54,034)	(66,082)
Deferred tax expense / income	14,505	(7,889)
current period	14,505	(7,889)
Total	**(39,529)**	**(73,971)**

The following table reconciles the income taxes reported in the income statement to the pre-tax result from continuing operations multiplied by the nominal Slovak tax rate.

The following table reconciles the income taxes reported in the income statement to the pre-tax result from continuing operations multiplied by the nominal Slovak tax rate.

EUR ths.	2020	2021
Pre-tax result from continuing operations	147,521	302,025
Statutory tax rate	21%	21%
Income tax expense for the financial year at the Slovak statutory tax rate (21%)	30,979	63,425
Impact of tax-exempt earnings of investments and other tax-exempt income	(8,139)	(1,334)
thereof - Permanently tax-exempt (income) from dividends	(100)	(112)
thereof - Permanently tax-exempt (income) from revaluation of asset	(1,048)	(621)
thereof - Transaction from participation	(5,426)	-
thereof - Other	(1,565)	(601)
Tax increases due to non-deductible expenses, additional business tax and similar elements	15,857	11,912
thereof - Permanently non-deductible expenses with fines, penalties, litigations and similar topics	-	12
thereof - Permanent differences coming from financial assets	6,120	8,057
thereof - Permanent differences coming from other assets	790	1,124
thereof - Transaction from participation	4,733	33
thereof - Other	4,214	2,686
Impact of the recurring recoverability assessment of fiscal losses	(88)	-
Tax expense/(income) attributable to other effects	629	-
Tax expenses / earnings not attributable to the reporting period	291	(32)
Total	**39,529**	**73,971**

The following table shows the income tax effects relating to each component of other comprehensive income:

	2020			2021		
EUR ths.	Pre-tax amount	Income tax	Net-of-tax amount	Pre-tax amount	Income tax	Net-of-tax amount
Fair value reserve of equity instruments	10,690	(2,245)	8,445	(11)	3	(9)
Fair value reserve of debt instruments	-	-	-	-	-	-
Own credit risk reserve	-	-	-	-	-	-
Cash flow hedge reserve	-	-	-	-	-	-
Remeasurement of defined benefit plans	(1,014)	213	(799)	(74)	15	(58)
Currency reserve	(238)	-	(238)	789	-	789
Other comprehensive income	**9,438**	**(2,032)**	**7,408**	**704**	**18**	**722**

Taxes on income within other comprehensive income are influenced by the consideration of the result of recoverability assessments allocated against OCI-related deferred tax assets. The allocation of the result of recoverability assessments is based on the Group’s methodology of allocating non-recoverable deferred tax assets per P&L and OCI. This approach proportionately reflects how the underlying temporary differences arose from IFRS-based adjustments of the accounting values of the related items.

Major components of deferred tax assets and deferred tax liabilities

	Tax assets		Tax liabilities		Through PL	Through OCI	Through other equity	Other	Total
EUR ths.	31.12.2020	31.12.2021	31.12.2020	31.12.2021	Net variance				
Temporary differences related to the following items:									
Assets									
Financial assets at fair value through profit or loss	88	88	-	-	-	-	-	-	**-**
Financial assets at AC	63,059	52,129	-	-	10,929	-	-	-	**10,929**
Property, equipment and investment properties	856	1,227	(830)	(576)	(625)	-	-	-	**(625)**
RoU Assets	27	17	-	-	11	-	-	-	**11**
Other assets	1	-	-	-	1	-	-	-	**1**
Liabilities									**-**
Long-term employee provisions (tax valuation different)	1,600	1,591	-	-	24	(18)	-	-	**6**
Other provisions (tax valuation different)	3,743	5,560	-	-	(1,817)	-	-	-	**(1,817)**
Other liabilities	8,015	8,860	-	-	(845)	-	-	(6)	**(851)**
Total deferred tax	**77,389**	**69,472**	**(830)**	**(576)**	**7,678**	**(18)**	**-**	**(6)**	**7,654**
Tax loss carried forward	631	631	-	-	211	-	-	(631)	**-**
Total deferred taxes	**76,980**	**69,107**	**-**	**-**	**7,889**	**(18)**	**-**	**(426)**	**7,445**
Current taxes	**8**	**-**	**(22,600)**	**(2,222)**	**66,082**	**-**	**-**	**-**	**66,082**
Total taxes	**76,988**	**69,107**	**(22,600)**	**(2,222)**	**73,971**	**(18)**	**-**	**(426)**	**73,527**

EUR ths.	Tax assets 31.12.2019	Tax assets 31.12.2020	Tax liabilities 31.12.2019	Tax liabilities 31.12.2020	Net variance Through PL	Net variance Through OCI	Net variance Through other equity	Net variance Other	Total
Temporary differences related to the following items:									
Assets									
Financial assets at fair value through profit or loss	-	88	(1,902)	-	(1,990)	-	-	-	**(1,990)**
Financial assets at AC	51,014	63,059	-	-	(12,044)	-	-	-	**(12,044)**
Property, equipment and investment properties	534	856	(1,143)	(830)	(635)	-	-	-	**(635)**
RoU Assets	75	27	-	-	47	-	-	-	**47**
Other assets	12	1	-	-	11	-	-	-	**11**
Liabilities									**-**
Long-term employee provisions (tax valuation different)	1,249	1,600	-	-	(139)	(213)	-	-	**(352)**
Other provisions (tax valuation different)	1,454	3,743	-	-	(2,289)	-	-	-	**(2,289)**
Other liabilities	8,817	8,015	-	-	802	-	-	-	**802**
Total deferred tax	**63,996**	**77,389**	**(20,491)**	**(830)**	**(15,308)**	**1,844**	**(19,592)**	**-**	**(33,056)**
Tax loss carried forward	1,344	631	-	-	713	-	-	-	**713**
Total deferred taxes	**44,727**	**76,980**	**-**	**-**	**(14,505)**	**1,844**	**(19,592)**	**-**	**(32,253)**
Current taxes	**786**	**8**	**(2,076)**	**(22,600)**	**54,034**	**-**	**-**	**-**	**54,034**
Total taxes	**45,513**	**76,988**	**(2,076)**	**(22,600)**	**39,529**	**1,844**	**(19,592)**	**-**	**21,781**

The Group's consolidated deferred tax asset position in amount of EUR 69.1 million as of 31 December 2021 (2020: EUR 77.0 million) is expected to be recoverable in the foreseeable future. These expectations result from year-end recoverability assessments undertaken by the Group's entities, either at individual level, or at relevant tax group level. Such assessments are comparing net temporary deductible differences and available fiscal losses at year-end - after offsetting with deferred tax liabilities at individual level or at relevant tax group level - with fiscal profit forecasts for a group-wide unified and unchanged time horizon of a maximum 5 years depending on the fiscal jurisdiction and applicable facts and circumstances. If the result of these assessments is negative, the deferred tax asset positions are correspondingly not recorded and the already existing deferred tax asset positions are correspondingly decreased.

FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortized cost of the financial liability. The estimated cash flows consider all the contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ('POCI', see part 'Impairment of financial instruments'), credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets that are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets that are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset were sold or paid if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 18 Fair value of financial instruments.

Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:
(i) The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.
(ii) The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (‘SPPI’) on the principal amount outstanding.
Application of these criteria leads to classification of financial assets into three measurement categories described in the respective note.

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit or loss

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss. Further details on financial liabilities at amortised cost are in the respective Note 15 Financial liabilities at amortised costs.

Impairment of financial instruments

The Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at fair value through profit or loss, its lease receivables, and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.
The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- 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.

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income, the Group distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset.
More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 25 Credit risk.

For financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at fair value through other comprehensive income, the loss allowance is recognised in the accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity and under 'Retained earnings and other reserves' in the statement of financial position. Loss allowances for loan commitments and financial guarantees are presented under the statement of financial position line item 'Provisions'.

For financial assets that are credit-impaired at initial recognition (POCI financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.
In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments are presented in the line item 'Impairment result from financial instruments'.

Write-offs

The Group writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

The Group has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the bank contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance (normally this relates to going concern scenarios for corporate customers). In gone concern scenarios with corporate customers, write-offs of the unrecoverable exposure parts are triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case). Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost. For retail customers, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. Residual uncollectable balances are written off after the collection process.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - it has transferred substantially all risks and rewards connected with ownership of the asset; or
  - has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at fair value through other comprehensive income, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at fair value through profit or loss the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, the Group has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Commercial renegotiations fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such a renegotiation must relate to a performing non-forborne lending agreement. It is initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. As a result, the bank renegotiates the terms and conditions because of a threat that the customer could otherwise refinance the loan with another bank. Such conditions introduce an implicit floating rate element to the contract. This kind of renegotiation rarely applies to loan assets in Stage 2.

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include following events:

- change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); and
- removal of a non-SPPI contractual feature.

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors. On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures or they are applied to customers in default or they trigger default (i.e. the derecognition occurs if the modification does not relate to financial difficulties):

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and at least two years compared to the original asset; or
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months);

If contractual modifications that qualify as forbearance measures or they are applied to customers in default or they trigger default (i.e. they relate to customers in financial difficulties) are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:

- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line ‘Impairment result from financial instruments’.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item ‘Interest income’ under ‘Net interest income’ at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line ‘Impairment result from financial instruments’. The remaining difference is presented in the line ‘Gains/losses from derecognition of financial assets measured at amortised cost’.

For financial assets measured at fair value through profit or loss, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in ‘Gains/losses from financial instruments measured at fair value through profit or loss’.

For debt instrument assets not measured at fair value through profit or loss that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original EIR. In the statement of income, the modification gain or loss is presented in the line ‘Interest income’ under ‘Net interest income’ if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line ‘Impairment result from financial instruments’. However, to the extent that the contractual modification involves the bank giving up its rights of collecting cash flows in respect of an outstanding amount of the asset, such as waiving (part of) principal or accrued interest amount, it is treated as a write-off.

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line ‘Other gains/losses from financial instruments not measured at fair value through profit or loss‘, ‘Gains/losses from financial instruments measured at fair value through profit or loss’ and ‘Net trading result’ depending on the measurement category of the derecognised financial liability.

Accounting judgements, assumptions and estimates

i. SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process, as they determine whether the asset must be measured at fair value through profit or loss or, depending on the business model assessment, at amortised cost or at fair value through other comprehensive income. When taking into consideration specific features of loans in the business of the Group, significant areas of judgement are prepayment fees, project financing loans and the benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, the Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis, such as common market practice regarding the level of prepayment fees and their acceptance by authorities.

For project financing loans the Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect, credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

Interest mismatches features relate to floating rate financial assets where: - the reference rate's (such as Euribor) tenor is different to the rate reset frequency, - time lags arise from interest rates fixed prior to the start of the interest period, or combinations of these features. For this purpose, the Group has developed a so called 'benchmark test' to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from a benchmark deal which does not have the interest mismatch feature.

Performing the quantitative benchmark test was particularly important upon transition to IFRS 9 as at 1 January 2018 for the portfolio existing at that time. Subsequently, the issuance of new loans with interest mismatch features was largely restricted so that a quantitative benchmark test applies only in exceptional cases.

ii. Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Group must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realized differently than originally expected, and a different measurement method may seem to be appropriate. In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Group, certain sales or other derecognition events are considered as not contradicting the held to collect contractual cash flows business model. Examples are sales due to increases in credit risk, sales close to financial assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) or derecognitions resulting from replacements of bonds based on an issuer's offer. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively, and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Group performs a prospective test. If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.

iii. Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life of revolving credit facilities.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 25 Credit risk. The development of loan loss provisions is described in, Note 13 Financial assets at amortised cost, Note 14 Trade and other receivables and in chapter Leases, part Finance lease receivables.

FINANCIAL INSTRUMENTS HELD AT AMORTISED COST

Financial assets are classified as measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line ‘Financial assets at amortised cost’, ‘Trade and other receivables’ and ‘Cash and cash balances’.

Interest income on these assets is calculated by effective interest method and is included under the line ‘Interest income’ under ‘Net interest income’ in the statement of income. Impairment gains or losses are included in the line ‘Impairment result from financial instruments’. Gains and losses from derecognition (such as sales) of the assets are reported under the line item ‘Gains/losses from derecognition of financial assets measured at amortised cost’.

At the Group, financial assets at amortised cost constitute the largest measurement category, which includes loan business to customers, interbank lending business (including reverse repo transactions), deposits with central banks, investments in debt securities, amounts in the course of settlement, trade and other receivables and cash and cash equivalents.

For description of financial liabilities measured at amortised cost refer to Note 15.

12. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

A part of 'Cash balances at central banks' represents the mandatory minimum reserve requirement deposits which amounted to EUR 2,484.0 million (2020: EUR 1,354.1 million) at the reporting date. The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

For the purpose of the Statement of cash flows, cash and cash equivalents include accounts with central banks and accounts with other credit institutions repayable on demand. The mandatory minimum reserve deposit is excluded from cash and cash equivalents. This deposit is repayable on demand, however it is not used for a day-to-day operation, as the Group is required to meet a defined average balance during a monitored period.

EUR ths.	31.12.2020	31.12.2021
Cash on hand	352,330	413,763
Cash balances at central banks	1,354,133	2,483,999
Other demand deposits at credit institutions	11,023	9,658
Cash and cash balances	**1,717,486**	**2,907,420**

13. Financial assets at amortised cost

Debt securities

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield generating activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model, see paragraph 'Business model assessment' in chapter 'Financial instruments - Significant accounting policies'.

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	3,604,711	-	-	-	3,604,711	(485)	-	-	-	(485)	3,604,226
Credit institutions	180,114	-	-	-	180,114	(155)	-	-	-	(155)	179,959
Other financial corporations	25,309	-	-	-	25,309	(36)	-	-	-	(36)	25,273
Non-financial corporations	93,394	9,366	-	-	102,760	(86)	(474)	-	-	(560)	102,200
Total	**3,903,528**	**9,366**	**-**	**-**	**3,912,894**	**(762)**	**(474)**	**-**	**-**	**(1,236)**	**3,911,658**

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	3,371,752	-	-	-	3,371,752	(282)	-	-	-	(282)	3,371,470
Credit institutions	182,974	-	-	-	182,974	(113)	-	-	-	(113)	182,861
Other financial corporations	10,131	-	-	-	10,131	(21)	-	-	-	(21)	10,110
Non-financial corporations	115,392	-	-	-	115,392	(129)	-	-	-	(129)	115,263
Total	**3,680,249**	**-**	**-**	**-**	**3,680,249**	**(545)**	**-**	**-**	**-**	**(545)**	**3,679,704**

Movement in credit loss allowances

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	(545)	(31)	29	408	(623)	-	-	-	(762)
Stage 2	-	-	-	(373)	(101)	-	-	-	(474)
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of debt securities	**(545)**	**(31)**	**29**	**35**	**(724)**	**-**	**-**	**-**	**(1,236)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	(384)	(43)	7	-	(125)	-	-	-	(545)
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of debt securities	**(384)**	**(43)**	**7**	**-**	**(125)**	**-**	**-**	**-**	**(545)**

In column ‘Additions’ increases of credit loan allowances due to the initial recognition of debt securities at amortised cost during the current reporting period are disclosed. Releases of credit loan allowances following the derecognition of the related debt securities at amortised cost are reported in column ‘Derecognitions’.

In column ‘Transfers between stages’ credit loan allowance net changes due to changes in credit risk that triggered re-assignments of the related amortised cost debt securities from Stage 1 (at 1 January 2021 or initial recognition date) to Stages 2 or 3 at 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related credit loss allowances are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related credit loss allowances are favourable and presented in line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related credit loss allowance amounts recognized prior to stage re-assignments are presented above in columns ‘Other changes in credit risk (net)’.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’.

The year-end total gross carrying amounts of amortised cost debt securities that were initially recognized (purchased) during the year 2021 and not fully derecognized by 31 December 2021 amounts to EUR 410.2 million (2020: EUR 531.7 million.) The gross carrying amounts of amortised cost debt securities that were held at 1 January 2021 and derecognized during the year 2021 amounts to EUR 160.9 million (2020: EUR 377.0 million).

Loans and advances to banks

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
Central banks	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	50,023	2	-	-	50,025	(42)	-	-	-	(42)	49,983
Total	**50,023**	**2**	**-**	**-**	**50,025**	**(42)**	**-**	**-**	**-**	**(42)**	**49,983**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2021.

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
Central banks	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	47	2	-	-	49	-	-	-	-	-	49
Total	**47**	**2**	**-**	**-**	**49**	**-**	**-**	**-**	**-**	**-**	**49**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2020.There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2021.

Movement in credit loss allowances

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	-	(76)	21	-	13	-	-	-	(42)
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of loans and advances to banks	**-**	**(76)**	**21**	**-**	**13**	**-**	**-**	**-**	**(42)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of loans and advances to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

In column ‘Additions’ increases of credit loss allowance due to the initial recognition of loans and advances to banks at Amortised cost during the current reporting period are disclosed. Releases of credit loss allowance following the derecognition of the related loans and advances to banks at Amortised cost are reported in column ‘Derecognitions’.
Any changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’.

The year-end total gross carrying amounts of amortised cost loans and advances to banks that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to EUR 50.0 million (2020: EUR 0.0 million). The gross carrying amounts of amortised cost loans and advances to banks that were held as of 1 January 2021 and fully de-recognized during the year 2021 amounts to EUR 0.0 million (2020: EUR 0.0 million).

Loans and advances to customers

Gross carrying amounts and credit loss allowances per impairment buckets

The following table represents gross carrying amounts and credit loss allowances per impairment buckets by sector of loans and advances to customers.

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
General governments	284,883	529	-	-	285,412	(411)	(16)	-	-	(427)	284,985
Other financial corporations	82,297	40,670	49	20	123,036	(318)	(2,610)	(36)	(1)	(2,965)	120,071
Non-financial corporations	2,584,694	1,366,633	68,644	67,929	4,087,900	(13,822)	(70,896)	(36,292)	(20,169)	(141,179)	3,946,721
Households	10,637,288	517,873	209,916	3,774	11,368,851	(25,309)	(37,192)	(121,330)	(1,750)	(185,581)	11,183,270
Total	**13,589,162**	**1,925,705**	**278,609**	**71,723**	**15,865,199**	**(39,860)**	**(110,714)**	**(157,658)**	**(21,920)**	**(330,152)**	**15,535,047**

The amounts represent the maximum exposure to credit risk. As at 31 December 2021 the Group had no reverse repo agreements.

As at 31 December 2021, 15 largest customers accounted for 5.3% of the gross loan portfolio amounting to EUR 819.0 million.

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
General governments	270,863	1,063	-	-	271,926	(368)	(40)	-	-	(408)	271,518
Other financial corporations	78,647	25,825	99	1	104,572	(380)	(787)	(60)	-	(1,227)	103,345
Non-financial corporations	2,259,994	1,413,659	56,949	80,179	3,810,781	(10,595)	(74,321)	(33,579)	(55,646)	(174,141)	3,636,640
Households	9,677,417	860,601	230,737	3,597	10,772,352	(18,515)	(51,826)	(132,663)	(1,707)	(204,711)	10,567,641
Total	**12,286,921**	**2,301,148**	**287,785**	**83,777**	**14,959,631**	**(29,858)**	**(126,974)**	**(166,302)**	**(57,353)**	**(380,487)**	**14,579,144**

As at 31 December 2020, 15 largest customers accounted for 5,8% of the gross loan portfolio amounting to EUR 863.9 million.

The following table represents gross carrying amounts and credit loss allowances per impairment buckets by asset classes of loans and advances to customers.

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
Lending for house purchase	8,895,446	325,032	138,977	1,921	9,361,376	(18,419)	(21,341)	(65,073)	(459)	(105,292)	9,256,084
Credit for consumption	1,213,054	147,615	61,328	178	1,422,175	(5,960)	(13,380)	(48,420)	(76)	(67,836)	1,354,339
Corporate loans and others	3,480,662	1,453,058	78,304	69,624	5,081,648	(15,481)	(75,993)	(44,165)	(21,385)	(157,024)	4,924,624
Total	**13,589,162**	**1,925,705**	**278,609**	**71,723**	**15,865,199**	**(39,860)**	**(110,714)**	**(157,658)**	**(21,920)**	**(330,152)**	**15,535,047**

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
Lending for house purchase	7,927,684	550,414	138,640	1,634	8,618,372	(14,481)	(29,516)	(61,976)	(141)	(106,114)	8,512,258
Credit for consumption	1,247,428	257,796	82,135	201	1,587,560	(3,020)	(18,441)	(62,702)	(85)	(84,248)	1,503,312
Corporate loans and others	3,111,809	1,492,939	67,009	81,942	4,753,699	(12,357)	(79,017)	(41,623)	(57,128)	(190,125)	4,563,574
Total	**12,286,921**	**2,301,149**	**287,784**	**83,777**	**14,959,631**	**(29,858)**	**(126,974)**	**(166,301)**	**(57,354)**	**(380,487)**	**14,579,144**

Movement in credit loss allowances

The following table represents movement in credit loss allowances by sector of loans and advances to customers.

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	**(29,858)**	**(29,766)**	**1,563**	**18,854**	**(879)**	**-**	**223**	**-**	**(39,863)**
General governments	(369)	(191)	13	40	94	-	-	-	(413)
Other financial corporations	(379)	(249)	4	22	284	-	-	-	(318)
Non-financial corporations	(10,595)	(24,081)	687	978	19,188	-	1	-	(13,822)
Households	(18,515)	(5,245)	859	17,814	(20,445)	-	222	-	(25,310)
Stage 2	**(126,974)**	**(4,709)**	**1,403**	**(22,595)**	**41,966**	**-**	**195**	**-**	**(110,714)**
General governments	(40)	(4)	-	(9)	36	-	-	-	(17)
Other financial corporations	(787)	-	-	(928)	(895)	-	-	-	(2,610)
Non-financial corporations	(74,321)	(4,066)	768	(9,031)	15,750	-	4	-	(70,896)
Households	(51,826)	(639)	635	(12,627)	27,075	-	191	-	(37,191)
Stage 3	**(166,302)**	**(1,069)**	**48,720**	**(4,025)**	**(43,579)**	**-**	**8,598**	**-**	**(157,657)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(60)	-	31	-	(7)	-	-	-	(36)
Non-financial corporations	(33,578)	(713)	12,734	(494)	(16,428)	-	2,188	-	(36,291)
Households	(132,664)	(356)	35,955	(3,531)	(27,144)	-	6,410	-	(121,330)
POCI	**(57,353)**	**-**	**271**	**-**	**34,287**	**-**	**877**	**-**	**(21,918)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	(1)	-	-	-	(1)
Non-financial corporations	(55,646)	-	79	-	34,911	-	488	-	(20,168)
Households	(1,707)	-	192	-	(623)	-	389	-	(1,749)
Total credit loss allowances of loans and advances to customers	**(380,487)**	**(35,544)**	**51,957**	**(7,766)**	**31,795**	**-**	**9,893**	**-**	**(330,152)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	**(34,322)**	**(19,343)**	**917**	**14,842**	**7,826**	**-**	**222**	**-**	**(29,858)**
General governments	(248)	(354)	-	120	113	-	-	-	(369)
Other financial corporations	(288)	(156)	1	299	(236)	-	-	-	(380)
Non-financial corporations	(8,455)	(12,520)	220	2,212	7,947	-	1	-	(10,595)
Households	(25,331)	(6,313)	696	12,211	2	-	221	-	(18,514)
Stage 2	**(36,177)**	**(27,588)**	**625**	**(58,465)**	**(5,600)**	**-**	**233**	**-**	**(126,972)**
General governments	(23)	(1)	-	(9)	(6)	-	-	-	(39)
Other financial corporations	(67)	(12)	-	(543)	(165)	-	-	-	(787)
Non-financial corporations	(11,648)	(22,805)	301	(34,434)	(5,738)	-	4	-	(74,320)
Households	(24,439)	(4,770)	324	(23,479)	309	-	229	-	(51,826)
Stage 3	**(212,655)**	**(5,373)**	**54,203**	**(6,385)**	**(5,081)**	**-**	**8,989**	**-**	**(166,302)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(76)	(4)	23	-	(3)	-	-	-	(60)
Non-financial corporations	(24,501)	(2,925)	5,210	(1,886)	(11,434)	-	1,956	-	(33,580)
Households	(188,078)	(2,444)	48,970	(4,499)	6,356	-	7,033	-	(132,662)
POCI	**(53,150)**	**-**	**1,493**	**-**	**(8,510)**	**-**	**2,812**	**-**	**(57,355)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(50,957)	-	1,238	-	(8,370)	-	2,443	-	(55,646)
Households	(2,193)	-	255	-	(140)	-	369	-	(1,709)
Total credit loss allowances of loans and advances to customers	**(336,304)**	**(52,304)**	**57,238**	**(50,008)**	**(11,365)**	**-**	**12,256**	**-**	**(380,487)**

The following table represents movement in credit loss allowances by asset classes of loans and advances to customers.

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	**(29,860)**	**(29,766)**	**1,563**	**18,854**	**(877)**	**-**	**223**	**-**	**(39,863)**
Lending for house purchase	(14,480)	(260)	113	13,438	(17,258)	-	25	-	(18,422)
Credit for consumption	(3,020)	(2,821)	35	3,874	(4,217)	-	189	-	(5,960)
Corporate loans and others	(12,359)	(26,685)	1,415	1,542	20,597	-	9	-	(15,481)
Stage 2	**(126,972)**	**(4,709)**	**1,403**	**(22,595)**	**41,965**	**-**	**195**	**-**	**(110,713)**
Lending for house purchase	(29,515)	(39)	144	(8,135)	16,204	-	-	-	(21,341)
Credit for consumption	(18,440)	(4)	61	(3,676)	8,538	-	141	-	(13,380)
Corporate loans and others	(79,016)	(4,666)	1,198	(10,784)	17,222	-	54	-	(75,992)
Stage 3	**(166,302)**	**(1,069)**	**48,720**	**(4,025)**	**(43,579)**	**-**	**8,598**	**-**	**(157,657)**
Lending for house purchase	(61,976)	(20)	5,908	(2,413)	(8,739)	-	2,168	-	(65,072)
Credit for consumption	(62,702)	(19)	36,062	(910)	(24,693)	-	3,842	-	(48,420)
Corporate loans and others	(41,624)	(1,030)	6,750	(702)	(10,147)	-	2,588	-	(44,165)
POCI	**(57,353)**	**-**	**270**	**-**	**34,287**	**-**	**877**	**-**	**(21,919)**
Lending for house purchase	(141)	-	-	-	(308)	-	-	-	(459)
Credit for consumption	(85)	-	2	-	(18)	-	26	-	(76)
Corporate loans and others	(57,127)	-	268	-	34,624	-	851	-	(21,384)
Total credit loss allowances of loans and advances to customers	**(380,487)**	**(35,544)**	**51,956**	**(7,766)**	**31,796**	**-**	**9,893**	**-**	**(330,152)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	**(34,323)**	**(19,343)**	**917**	**14,842**	**7,825**	**-**	**222**	**-**	**(29,860)**
Lending for house purchase	(12,229)	(216)	42	8,490	(10,580)	-	13	-	(14,480)
Credit for consumption	(11,337)	(3,567)	42	3,772	7,874	-	196	-	(3,020)
Corporate loans and others	(10,757)	(15,560)	833	2,580	10,532	-	13	-	(12,359)
Stage 2	**(36,177)**	**(27,588)**	**625**	**(58,465)**	**(5,600)**	**-**	**233**	**-**	**(126,972)**
Lending for house purchase	(10,343)	(13)	14	(13,821)	(5,352)	-	-	-	(29,515)
Credit for consumption	(12,166)	(4)	23	(8,492)	2,034	-	165	-	(18,440)
Corporate loans and others	(13,668)	(27,571)	588	(36,152)	(2,281)	-	68	-	(79,016)
Stage 3	**(212,655)**	**(5,373)**	**54,203**	**(6,385)**	**(5,081)**	**-**	**8,989**	**-**	**(166,302)**
Lending for house purchase	(80,259)	(3)	5,701	(2,430)	14,050	-	965	-	(61,976)
Credit for consumption	(97,519)	(28)	44,130	(1,835)	(12,942)	-	5,492	-	(62,702)
Corporate loans and others	(34,877)	(5,342)	4,372	(2,120)	(6,189)	-	2,532	-	(41,624)
POCI	**(53,149)**	**-**	**1,493**	**-**	**(8,509)**	**-**	**2,812**	**-**	**(57,353)**
Lending for house purchase	(308)	-	-	-	167	-	-	-	(141)
Credit for consumption	(172)	-	38	-	12	-	37	-	(85)
Corporate loans and others	(52,669)	-	1,455	-	(8,688)	-	2,775	-	(57,127)
Total credit loss allowances of loans and advances to customers	**(336,304)**	**(52,304)**	**57,238**	**(50,008)**	**(11,365)**	**-**	**12,256**	**-**	**(380,487)**

In column ‘Additions’ increases of credit loss allowance due to the initial recognition of loans and advances to customers at amortised cost during the current reporting period are disclosed. Credit loss allowances recognized against drawings from non-revolving loan commitments are deemed as additions for the purpose of presenting current period’s movement in credit loss allowance. Therefore, additions in Stages 2 and 3 reflect transfers from Stage 1 having occurred between commitment and drawing dates of related credit facilities. Releases of credit loss allowance following the derecognition of the related loans and advances to customers at amorised cost are reported in column ‘Derecognitions’.

In column ‘Transfers between stages’ credit loss allowance net changes due to changes in credit risk that triggered re-assignments of the related loans and advances to customers at amortised cost from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related credit loss allowances are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related credit loss allowances are favourable (incremental year-on-year releases) and presented in line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related credit loss allowance amounts recognized prior to stage re-assignments are presented above in column ‘Other changes in credit risk (net)’.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’. This column also captures the passage-of-time adverse effect (‘unwinding correction’) over the lifetime expected cash shortfalls of loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers.

The column 'Insignificant modifications (net)' reflects the effect on credit loss allowance a arising from contractual modifications of loans and advances to customers at amortised cost which do not trigger their full derecognition. The use of credit loss allowance triggered by full or partial write-offs of amortised cost loans and advances to customers is reported in column 'Write-offs'.

One significant driver of the credit loss allowance movements for the year has been the transfer of the related instruments across different impairment stages. The year-end gross carrying amount of amortised cost loans and advances to customers that were assigned at 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
EUR ths.	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2021								
General governments	529	857	-	-	-	-	-	-
Other financial corporations	22,796	1,871	-	-	-	-	-	-
Non-financial corporations	475,208	307,237	31,969	699	4,376	740	-	-
Households	230,135	365,945	58,543	10,323	18,972	11,184	-	-
Total	**728,668**	**675,910**	**90,512**	**11,022**	**23,348**	**11,924**	**-**	**-**
2020								
General governments	534	120	-	-	-	-	-	-
Other financial corporations	25,524	16	26	-	-	-	-	-
Non-financial corporations	1,222,657	14,377	6,783	588	23,936	604	-	-
Households	705,694	45,675	24,811	29,690	32,084	13,697	-	-
Total	**1,954,409**	**60,188**	**31,620**	**30,278**	**56,020**	**14,301**	**-**	**-**

Detailed information on stage transfers due to COVID-19 measures are described in Note 25 Credit risk.

The year-end total gross carrying amount of the amortised cost loans and advances to customers that were initially recognized during the reporting period and not fully de-recognized by 31 December 2021 amounts to EUR 4,233.2 million (2020: EUR 3,867.4 million). The gross carrying amount of the amortised cost loans and advances to customers that were held at 1 January 2021 and fully de-recognized during the reporting period amounts to EUR 1,711.7 million (2020: EUR 2,117.9 million).

Mandate loans

During the year 2021 the Group cooperated with 5 external companies (2020: 5 companies). Based on the mandate contracts the management and administration of certain non-performing receivables is outsourced to the external company temporary. In case of mandate loans, the Group maintains risks and rewards associated with the underlying exposures. External service providers are rewarded by commission from the claimed amount of loans, which are subject to the mandate contracts.

As at 31 December 2021 the total amount of gross loans outsourced was EUR 87.4 million (2020: EUR 94.4 million).

Write off and sale of receivables

During the year 2021 the Group sold loan receivables in the amount of EUR 56.3 million (2020: EUR 61.2 million) for a consideration of EUR 15.0 million (2020: EUR 9.2 million) and used the corresponding allowances amounting EUR 38.1 million (2020: EUR 53.7 million). Once loan receivables are sold, the Group transfers all risks and rewards attributable to them and does not have any continuing involvement in the loan receivables subsequent to their sale.

In the year 2021 the Group has written off loans and finance lease receivables in the amount of EUR 11.1 million (2020: EUR 15.1 million) and used the respective allowances amounting EUR 10.3 million (2020: EUR 14.3 million).

14. Trade and other receivables

The trade and other receivables comprise receivables from factoring transactions and other trade receivables.

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
General governments	521	-	-	-	521	(1)	-	-	-	(1)	520
Credit institutions	1,857	-	-	-	1,857	-	-	-	-	-	1,857
Other financial corporations	2,458	-	-	-	2,458	(48)	-	-	-	(48)	2,410
Non-financial corporations	124,821	1,158	4,860	-	130,839	(1,789)	(3)	(4,747)	-	(6,539)	124,300
Households	1	-	-	-	1	-	-	-	-	-	1
Total	**129,658**	**1,158**	**4,860**	**-**	**135,676**	**(1,838)**	**(3)**	**(4,747)**	**-**	**(6,588)**	**129,088**

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
General governments	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	2,013	-	-	-	2,013	-	-	-	-	-	2,013
Other financial corporations	1,615	41	-	-	1,656	(12)	(1)	-	-	(13)	1,643
Non-financial corporations	77,007	1,436	3,968	-	82,411	(424)	(8)	(3,861)	-	(4,293)	78,118
Households	-	-	431	-	431	-	-	(431)	-	(431)	-
Total	**80,635**	**1,477**	**4,399**	**-**	**86,511**	**(436)**	**(9)**	**(4,292)**	**-**	**(4,737)**	**81,774**

Movement in credit loss allowances

	01.01.2021	Additions	Derecognitions	Other changes in credit risk (net)	Transfers between stages	Insignificant modifications (net)	Write offs	Other	31.12.2021
Stage 1	**(437)**	**(1,665)**	**-**	**262**	**-**	**-**	**-**	**-**	**(1,840)**
Other financial corporations	(12)	(42)	-	5	-	-	-	-	(49)
Non-financial corporations	(425)	(1,623)	-	257	-	-	-	-	(1,791)
Households	-	-	-	-	-	-	-	-	-
Stage 2	**(8)**	**-**	**-**	**6**	**-**	**-**	**-**	**-**	**(2)**
Other financial corporations	(1)	-	-	1	-	-	-	-	-
Non-financial corporations	(7)	-	-	5	-	-	-	-	(2)
Stage 3	**(4,292)**	**-**	**-**	**(552)**	**(357)**	**-**	**455**	**-**	**(4,746)**
Non-financial corporations	(3,861)	-	-	(552)	(357)	-	24	-	(4,746)
Households	(431)	-	-	-	-	-	431	-	-
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(4,737)**	**(1,665)**	**-**	**(284)**	**(357)**	**-**	**455**	**-**	**(6,588)**

Movement table of credit loss allowances above represents changes in allowances disclosed based on the reason of the change and is prepared as at the end of the reporting period in comparison to the balance as at 1 January of the relevant reporting period. The table contains allocations, releases, reclassifications between stages as well as use of the credit loss allowances. Reconciliation of such movements to income statement line „Impairment result from financial instruments“ is disclosed in note 9.

Detail description of columns from the above table are disclosed in the note 13 Financial assets at amortised cost.

EUR ths.	01.01.2020	Additions	Derecognitions	Other changes in credit risk (net)	Transfers between stages	Insignificant modifications (net)	Write offs	Other	31.12.2020
Stage 1	**(193)**	**(492)**	**-**	**251**	**-**	**-**	**-**	**-**	**(434)**
Other financial corporations	-	(7)	-	(4)	-	-	-	-	(11)
Non-financial corporations	(193)	(468)	-	238	-	-	-	-	(423)
Stage 2	**(2)**	**-**	**-**	**(2)**	**(5)**	**-**	**-**	**-**	**(9)**
Other financial corporations	-	-	-	-	(1)	-	-	-	(1)
Non-financial corporations	(2)	-	-	(2)	(4)	-	-	-	(8)
Stage 3	**(3,396)**	**-**	**8**	**(2,968)**	**(22)**	**-**	**2,084**	**-**	**(4,294)**
Other financial corporations	(8)	-	8	-	-	-	-	-	-
Non-financial corporations	(2,973)	-	-	(2,951)	(22)	-	2,084	-	(3,862)
Households	(415)	-	-	(17)	-	-	-	-	(432)
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(3,591)**	**(492)**	**8**	**(2,719)**	**(27)**	**-**	**2,084**	**-**	**(4,737)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2020	2021
Transfers between Stage 1 and Stage 2	**1,448**	**1,158**
To Stage 2 from Stage 1	1,448	1,158
To Stage 1 from Stage 2	-	-
Transfers between Stage 2 and Stage 3	**-**	**121**
To Stage 3 from Stage 2	-	121
To Stage 2 from Stage 3	-	-
Transfers between Stage 1 and Stage 3	**1,022**	**749**
To Stage 3 from Stage 1	1,022	749
To Stage 1 from Stage 3	-	-

15. Financial liabilities at amortised costs

The line item ‘Financial liabilities at amortised cost’ is further broken down into ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.

Interest expenses incurred are calculated using effective interest method are reported in the line item ‘Interest expenses’ under ‘Net interest income’ in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item ‘Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss’.

Deposits from banks

EUR ths.	31.12.2020	31.12.2021
Overnight deposits	3,859	3,827
Term deposits	1,655,547	2,889,520
Repurchase agreements	50,849	-
Deposits from banks	**1,710,255**	**2,893,347**

Financial liabilities stemming from the TLTRO III programme (The targeted longer-term refinancing operations) of the ECB are presented under ‘Term deposits’. The Group assessed an appropriate accounting treatment of the TLTRO III. The conclusion was that such instruments do not qualify as below-market interest rate loans and therefore are not related to IAS 20 government grants accounting. The reason was that the TLTRO is considered as a separate market organized by the ECB as part of its monetary policy. As a result, the IFRS 9 amortised cost accounting treatment applies.

The carrying amount of the TLTRO III liabilities was EUR 2,718.8 million at the end of 2021 (2020: EUR 1,496.6 million). The negative interest expense recognized for the TLTRO III in 2021, including the catch-up adjustment discussed below, was EUR 27.8 million. Details for respective tranches and collateral information is disclosed in note 22 Collaterals.

In general, the TLTRO interest rate is reduced if banks reach certain lending thresholds. At the TLTRO inception, the original effective interest rate is determined by considering the contractual terms and assessing whether the eligibility conditions for the reduced interest will be fulfilled. The scenario which is considered more likely is used for the original effective interest rate calculation.

The Group assesses on an ongoing basis how it meets the eligibility criteria for the lower interest rate. Any subsequent changes in estimates of payments due to the revised assessment of the eligibility conditions are treated as catch-up adjustments. The amount of the catch-up adjustment is determined by discounting the revised estimated payments at the original effective interest rate and comparing it to the gross carrying amount before the adjustment. The catch-up adjustments are presented in the net interest income.

Deposits from customers

EUR ths.	31.12.2020	31.12.2021
Overnight deposits	**9,857,419**	**11,095,454**
Non-savings deposits	9,857,419	11,095,454
General governments	128,017	167,730
Other financial corporations	300,253	355,226
Non-financial corporations	1,801,606	2,090,259
Households	7,627,543	8,482,239
Term deposits	**5,011,596**	**4,877,309**
Deposits with agreed maturity	1,107,931	851,771
Non-savings deposits	1,107,931	851,771
General governments	478	417
Other financial corporations	25,793	7,261
Non-financial corporations	103,462	91,931
Households	978,198	752,162
Deposits redeemable at notice	3,903,665	4,025,538
Households	3,903,665	4,025,538
Deposits from customers	**14,869,015**	**15,972,763**
General governments	128,495	168,147
Other financial corporations	326,046	362,487
Non-financial corporations	1,905,068	2,182,190
Households	12,509,406	13,259,939

Debt securities issued

EUR ths.	31.12.2020	31.12.2021
Subordinated debt securities issues	63,534	51,241
Senior non-preferred bonds	30,848	30,687
Other debt securities issued	1,957,349	1,865,002
Bonds	299,719	488,774
Mortgage covered bonds	1,657,630	1,376,228
Debt securities issued	**2,051,731**	**1,946,930**

Net debt reconciliation

The table below presents an analysis of debt of the Group and the movements in the debt. The debt items are those that are reported under the financing activities in the statement of cash flows of the Group.

EUR ths.	31.12.2020	31.12.2021
Debt securities issued		
Opening balance as at 1 January	2,070,975	2,051,731
Cash-flows reported within financing activities	(23,715)	(73,174)
Non-cash adjustments	4,471	(31,627)
Closing balance as at 31 December	2,051,731	1,946,930
Lease liability		
Opening balance as at 1 January	18,384	20,577
Cash-flows reported within financing activities	(6,949)	(6,735)
Non-cash adjustments	9,142	6,209
Closing balance as at 31 December	20,577	20,051

Non-cash adjustments represents effects of amortization and deferrals.

Subordinated debt securities issued

The subordinated debt securities issued listed in the following table do not include embedded derivatives, which should be separated and disclosed under the balance sheet line item ‘Financial liabilities held for trading‘.

The interest rate shown below represents actual interest expense of the Group.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2020	2021
Subordinated Bonds	August 2011	August 2021	-	10,000	1,000	EUR	13,977	-
Subordinated Bonds	November 2011	November 2023	4.58%	4,250	1,000	EUR	5,825	6,083
Subordinated Bonds	June 2012	June 2022	5.80%	11,000	1,000	EUR	16,113	16,999
Subordinated Bonds	November 2012	November 2022	4.30%	9,000	1,000	EUR	11,858	12,399
Subordinated Bonds	September 2018	September 2028	2.88%	33	100,000	EUR	3,327	3,327
Subordinated Bonds	September 2018	September 2028	1.48%	33	100,000	EUR	3,314	3,314
Subordinated Bonds	November 2018	November 2028	2.45%	91	100,000	EUR	9,120	9,119
Total							**63,534**	**51,241**

Senior non-preferred bonds

In February 2020 the Group issued senior non-preferred bonds in the number of 300 securities with the notional value of EUR 0.1 million, interest rate 0.52% and maturity date in February 2026 in the total amount of EUR 30.7 million as at 31 December 2021 (2020: EUR 30.8 million).

Other debt securities issued

All securities listed in the following table are issued in book-entry form as bearer or registered securities with annual or semiannual coupon payments. Their transferability is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to these securities. The bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2021 other debt securities issued included embedded derivatives (equity and commodities) in the amount of EUR 0.0 million (2020: EUR 0.0 million), which were separated and disclosed in the line items ‘Financial assets – held for trading‘ and ‘Financial liabilities – held for trading’. More information on embedded derivatives are detailed in note 16 Derivative financial instruments.

The stated interest rate corresponds with the actual interest costs of the Group.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2020	2021
Covered Bonds	July 2007	July 2027	4.95%	250	66,388	EUR	22,872	21,482
Covered Bonds	April 2008	April 2021	-	250	66,388	EUR	17,184	-
Covered Bonds	January 2013	January 2025	3.10%	87	50,000	EUR	4,412	4,412
Covered Bonds	June 2013	June 2028	3.00%	132	50,000	EUR	6,615	6,615
Covered Bonds	February 2014	February 2029	2.80%	97	50,000	EUR	4,899	4,899
Covered Bonds	March 2014	March 2021	-	8,204	1,000	EUR	8,249	-
Covered Bonds	March 2014	March 2022	2.00%	220	50,000	EUR	11,152	11,166
Covered Bonds	May 2014	May 2021	-	4,764	1,000	EUR	4,777	-
Covered Bonds	June 2014	June 2021	-	9,314	1,000	EUR	9,324	-
Covered Bonds	July 2014	July 2021	-	3,397	1,000	EUR	3,421	-
Covered Bonds	February 2015	February 2022	0.88%	350	100,000	EUR	35,273	35,279
Covered Bonds	August 2015	August 2025	1.38%	100	100,000	EUR	10,020	10,027
Covered Bonds	August 2015	August 2022	1.00%	100	100,000	EUR	10,031	10,037
Covered Bonds	December 2015	December 2021	-	170	100,000	EUR	17,005	-
Covered Bonds	February 2016	February 2021	-	500	100,000	EUR	50,223	-
Covered Bonds	March 2016	March 2021	-	6,787	1,000	EUR	6,809	-
Covered Bonds	March 2016	March 2026	1.00%	90	100,000	EUR	9,016	9,026
Covered Bonds	April 2016	April 2021	-	4,879	1,000	EUR	4,891	-
Covered Bonds	May 2016	May 2021	-	4,889	1,000	EUR	4,897	-
Covered Bonds	June 2016	June 2021	-	3,828	1,000	EUR	3,813	-
Covered Bonds	July 2016	July 2021	-	4,834	1,000	EUR	4,855	-
Covered Bonds	August 2016	August 2021	-	4,864	1,000	EUR	4,880	-
Covered Bonds	August 2016	August 2021	-	4,760	1,000	EUR	4,772	-
Covered Bonds	September 2016	September 2021	-	4,843	1,000	EUR	4,852	-
Covered Bonds	October 2016	October 2021	-	4,886	1,000	EUR	4,892	-
Covered Bonds	November 2016	November 2021	-	1,000	100,000	EUR	100,017	-
Covered Bonds	December 2016	December 2021	-	9,591	1,000	EUR	9,593	-
Senior Unsecured Bonds	December 2016	December 2021	-	4,090	1,000	EUR	4,091	-
Covered Bonds	March 2017	March 2025	0.75%	1,000	100,000	EUR	100,433	100,477
Senior Unsecured Bonds	March 2017	March 2022	0.60%	4,452	1,000	EUR	4,472	4,308
Senior Unsecured Bonds	April 2017	April 2022	0.60%	30	100,000	EUR	3,013	3,013
Senior Unsecured Bonds	April 2017	April 2022	0.60%	4,532	1,000	EUR	4,550	4,354
Senior Unsecured Bonds	May 2017	May 2022	0.60%	4,404	1,000	EUR	4,420	4,287
Covered Bonds	June 2017	June 2022	0.38%	50	100,000	EUR	5,005	5,009
Senior Unsecured Bonds	July 2017	July 2022	0.60%	4,506	1,000	EUR	4,518	4,353
Senior Unsecured Bonds	August 2017	August 2022	0.63%	4,478	1,000	EUR	4,488	4,140
Senior Unsecured Bonds	September 2017	September 2022	0.63%	4,610	1,000	EUR	4,618	4,418
Senior Unsecured Bonds	September 2017	September 2022	0.63%	9,186	1,000	EUR	9,201	8,922
Covered Bonds	October 2017	October 2022	0.50%	1,500	100,000	EUR	150,078	150,131
Senior Unsecured Bonds	November 2017	November 2027	1.38%	44	100,000	EUR	4,402	4,403
Senior Unsecured Bonds	November 2017	November 2022	2.00%	4,863	1,000	USD	3,973	4,303
Senior Unsecured Bonds	February 2018	February 2023	2.15%	3,601	1,000	USD	2,991	3,224
Senior Unsecured Bonds	February 2018	February 2023	0.65%	9,281	1,000	EUR	9,335	8,930
Senior Unsecured Bonds	March 2018	March 2021	-	142	100,000	EUR	14,229	-

The table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2020	2021
Senior Unsecured Bonds	March 2018	March 2023	0,65%	9 641	1 000	EUR	9 689	9 355
Senior Unsecured Bonds	April 2018	April 2021	-	3 584	1 000	USD	2 966	-
Senior Unsecured Bonds	June 2018	June 2024	0,75%	4 885	1 000	EUR	4 904	4 626
Covered Bonds	August 2018	August 2025	0,63%	2 500	100 000	EUR	262 050	256 069
Senior Unsecured Bonds	August 2018	August 2024	0,70%	4 862	1 000	EUR	4 874	4 632
Senior Unsecured Bonds	September 2018	September 2024	0,70%	4 674	1 000	EUR	4 683	4 539
Senior Unsecured Bonds	November 2018	November 2024	0,75%	4 850	1 000	EUR	4 853	4 702
Covered Bonds	December 2018	December 2024	0,50%	2 500	100 000	EUR	258 011	253 566
Senior Unsecured Bonds	December 2018	December 2024	0,75%	4 854	1 000	EUR	4 857	4 797
Senior Unsecured Bonds	February 2019	February 2025	0,70%	9 864	1 000	EUR	9 924	9 547
Senior Unsecured Bonds	March 2019	March 2025	0,00%	100	50 000	EUR	4 857	4 891
Covered Bonds	June 2019	June 2026	0,13%	5 000	100 000	EUR	503 312	498 034
Senior Unsecured Bonds	June 2019	December 2025	0,60%	5 711	1 000	EUR	5 713	5 574
Senior Unsecured Bonds	June 2019	June 2022	2,00%	3 696	1 000	USD	3 045	3 261
Senior Unsecured Bonds	February 2020	February 2024	0,00%	170	100 000	EUR	17 000	16 999
Senior Unsecured Bonds	March 2020	March 2025	0,00%	53	2 000 000	CZK	3 842	4 105
Senior Unsecured Bonds	June 2020	June 2025	0,63%	150	100 000	EUR	15 001	4 504
Senior Unsecured Bonds	June 2020	June 2023	0,70%	5 000	1 000	EUR	5 018	4 965
Senior Unsecured Bonds	June 2020	June 2025	0,80%	5 000	1 000	EUR	5 020	4 950
Senior Unsecured Bonds	August 2020	August 2025	-	214	50 000	EUR	10 710	-
Senior Unsecured Bonds	August 2020	August 2023	0,35%	5 000	1 000	EUR	5 006	4 913
Senior Unsecured Bonds	October 2020	October 2025	0,25%	1 000	100 000	EUR	99 457	99 582
Senior Unsecured Bonds	March 2021	March 2027	0,47%	1 000	100 000	EUR	-	102 347
Senior Unsecured Bonds	June 2021	June 2024	0,60%	1 299	1 000	USD	-	1 151
Senior Unsecured Bonds	June 2021	June 2028	0,38%	1 302	100 000	EUR	-	129 609
Senior Unsecured Bonds	July 2021	July 2031	0,15%	1	1 000	EUR	-	1 069
Total							**1 957 350**	**1 865 002**

In May 2020 the Group issued covered bond in the value of 500 mil. EUR with interest rate 0,125% and maturity of 7 years, which was not placed in the market and according IFRS is therefore not possible to recognized this bond in the balance sheet. Subsequently this covered bond was used as collateral for obtaining term deposit from TLTRO. See also note 20 Offsetting of financial instruments.

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

There are various reasons for assigning the fair value through profit or loss measurement category to debt instrument financial assets.

Fair value through profit or loss measurement relates to that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Group, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales. Another reason for the fair value through profit or loss measurement are financial assets whose contractual cash flows are not considered as SPPI.

The Group also makes use of the option to designate some financial assets as measured at fair value through profit or loss at initial recognition. Such a classification is used if it eliminates or significantly reduces an accounting mismatch between fixed interest rate financial assets, which in the absence of such a classification would be measured at amortised cost or at fair value through other comprehensive income, and related derivatives measured at fair value through profit or loss.

On the balance sheet, debt instrument financial assets measured at fair value through profit or loss are presented as ‘Financial assets held for trading’, sub-item ‘Other financial assets held for trading’ and ‘Non-trading financial assets at fair value through profit or loss’, sub-items ‘Debt securities’. Non-trading financial assets at fair value through profit or loss are disclosed in Note 17 which is ‘mandatorily at fair value through profit or loss’. Financial assets are mandatorily measured at fair value through profit or loss either because they are held as part of residual business models that are other than held for trading or their contractual cash flows are not SPPI.

Investments in equity instruments that are held for trading (i.e. financial assets held by the trading function of the bank) are measured at fair value through profit or loss. They are included in the balance sheet under the line ‘Financial assets held for trading’, sub-item ‘Other financial assets held for trading’. Investments in equity instruments that are not held for trading are also measured at fair value through profit or loss (unless they are designated at fair value through other comprehensive income). They are presented in the balance sheet under ‘Non-trading financial assets at fair value through profit or loss’, sub-item ‘Equity instruments’, sub-category ‘mandatorily at fair value through profit or loss’ in Note 17.

From IFRS 9 perspective all derivatives which are not designated as hedging instruments are considered as held for trading. As a result, they are measured at fair value through profit or loss. They are described more detail in the Note 16 Derivative financial instruments.

In the statement of income, the profit or loss effects of non-derivative financial assets measured at fair value through profit or loss are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line ‘Other similar income’ under ‘Net interest income’ and is calculated by applying the EIR to the amortised cost component of the financial assets. The dividend income on equity instruments is presented in the line ‘Dividend income’. The fair value gains or losses are calculated net of the interest or dividend income, and they also include transaction costs and origination fees. They are reported in the line ‘Net trading result’ for financial assets held for trading and in the line ‘Gains/losses from financial instruments measured at fair value through profit or loss’ in case of non-trading financial assets at fair value through profit or loss. For investments in funds, which are not consolidated by the Group, the interest or dividend component is not separated from the fair value gains or losses.

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and financial liabilities designated at fair value through profit or loss. On the balance sheet, financial liabilities at fair value through profit or loss are presented as ‘Financial liabilities held for trading’, sub-items ‘Derivatives’. Accounting policy related to financial liabilities at fair value through profit or loss can be found in Note 16 Derivative financial instrument.

16. Derivative financial instruments

Derivative financial instruments are used by the Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by the Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps.

For presentation purposes, derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Hedge accounting derivatives are discussed in Note 19 Hedge accounting.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those that are not designated as hedging instruments for hedge accounting. They are presented in the statement of financial position in the line item ‘Derivatives’ under the heading ‘Financial assets/Financial liabilities held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book, are presented in this line item.

Changes in the fair value (clean price) of derivatives are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to financial derivatives is presented in the statement of income in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'. Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

Derivatives held for trading

	31.12.2020			31.12.2021		
EUR ths.	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Derivatives held in the trading book	**2,405,271**	**59,994**	**56,524**	**2,505,756**	**47,874**	**46,131**
Interest rate derivatives	2,066,927	21,952	20,708	2,063,330	11,392	10,473
Foreign exchange	338,344	38,042	35,816	442,426	36,482	35,658
Total gross amounts	**2,405,271**	**59,994**	**56,524**	**2,505,756**	**47,874**	**46,131**

The Group disclosed derivative instruments in the banking book that are used for economical hedging of financial instruments on asset or liability side and are not designated as hedge accounting.

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as a part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most cases requires margin deposits.

Embedded derivatives

As a part of ordinary business activity the Group issues complex debt instruments, which contain embedded derivatives.

Embedded derivatives are separated from the host debt instruments if:

- the embedded derivative meets the definition of a derivative,
- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments,
- the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item 'Derivatives' in financial assets held for trading and financial liabilities held for trading. Derivatives that are not closely related and are separated relate to bonds and deposits.

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

	31.12.2020		31.12.2021	
EUR ths.	Designated at fair value	Mandatorily at fair value	Designated at fair value	Mandatorily at fair value
Equity instruments	-	7,547	-	7,155
Debt securities	-	7,740	-	7,913
Other financial corporations	-	7,740	-	7,913
Non-trading financial assets at fair value through profit or loss	-	**15,287**		**15,068**

´Equity Instruments´ classified under category ´Mandatorily at fair value´ represents such equity Instruments that the Group does not hold for strategic business decisions.

´Debt securities´ classified under category ´Mandatorily at fair value´ represents financial assets, which do not comply with the SPPI criteria under IFRS 9.

FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

18. Fair value of financial instruments

The measurement of fair value at the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Using of unobservable inputs is particularly relevant for models used for valuations of loans and unquoted equity investments. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found subsequently.
For all financial instruments the fair value is measured and/or disclosed on a recurring basis.

Financial instruments carried at fair value

Description of valuation models and parameters

The Group uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Debt securities.
For plain vanilla (fixed and floating rate) debt securities the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-

like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modeling techniques including methods described for OTC-derivatives.

Equity instruments.
Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.
The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity.
The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the levered beta and the country risk premium.
In rare cases, techniques for non-trading equity instruments may also include the comparable company multiple methods. These are valuation technique that uses prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

OTC - derivative financial instruments.
Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps and commodity swaps) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes and Hull-White type models. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo simulation. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.
For determining the fair value of derivatives the OIS curves are applied for discounting.
The Bank values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debit value adjustments (DVA) for own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. The Bank has implemented an approach, where the modeling of the expected exposure is based on option replication strategies. For products where an option replication is not feasible the exposure is computed with Monte-Carlo simulation techniques. One of the two modeling approaches is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default by counterparties that are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles present in the central European market. Market based valuation concepts are incorporated for this. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances. Netting has only been considered for a few counterparties where the impact was material. In these cases, netting has been applied for both CVA and DVA. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

According to the described methodology the accumulated CVA-adjustments amounted to EUR 3.1 million at 31. December 2021 (2020: EUR 2.3 million) and the total DVA-adjustment amounted to EUR 0.9 million (2020: EUR 0.6 million).

Based on an analysis carried out by the Group it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

Validation and control

The responsibility for valuation of financial instruments measured at fair value is risk management unit which is independent of the trading units. The risk management unit is also responsible for appropriateness of input date and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. The evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

Level 1 measurement include exchange traded derivatives (options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

Level 2 measurement include OTC derivatives, less liquid shares, bonds and funds as well as asset backed securities (ABS), collateralized debt obligations (CDO), own issues and deposits.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. Typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

These include shares, participations and funds not quoted, illiquid bonds as well as collateralized mortgage obligations (CMO) as well as loans. Furthermore, fund units issued by investment funds fully consolidated by Erste Group as well as own issues are reported in this category.

The volume of Level 3 financial assets can be allocated to the following categories:

- Derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares, participations and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.
- Loans which do not comply with the contractual cash flow criteria.
- Fund units issued by investment funds fully consolidated by the Group as well as own issues, if price updates are not provided on a regular basis

The allocation of the appropriate level of positions is determined at the end of the reporting period.

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

Derivatives transacted via Clearing Houses are presented after netting in compliance with their balance sheet treatment. The netted derivatives are allocated to Level 2.

Valuation process for financial instruments categorized as Level 3

The valuation of financial instruments categorized as Level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking for similar transactions, among others. This involves estimation and expert judgment. Further details regarding input parameters used and the results of the sensitivity analysis are disclosed in the sub-chapter Unobservable inputs and sensitivity analysis for Level 3 measurements below.

EUR ths.	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
	31.12.2020				31.12.2021			
Assets								
Financial assets HfT	-	59,994	-	59,994	-	47,874	-	47,874
Derivatives	-	59,994	-	59,994	-	47,874	-	47,874
Non-trading financial assets at FVPL	-	-	15,287	15,287	-	-	15,068	15,068
Equity instruments	-	-	7,547	7,547	-	-	7,155	7,155
Debt securities	-	-	7,740	7,740	-	-	7,913	7,913
Hedge accounting derivatives	-	34,345	-	34,345	-	16,455	-	16,454
Total assets	**-**	**94,339**	**15,287**	**109,626**	**-**	**64,329**	**15,068**	**79,396**
Liabilities								
Financial liabilities HfT	-	56,524	-	56,524	-	46,131	-	46,131
Derivatives	-	56,524	-	56,524	-	46,131	-	46,131
Hedge accounting derivatives	-	48,373	-	48,373	-	31,844	-	31,844
Total liabilities	**-**	**104,897**	**-**	**104,897**	**-**	**77,975**	**-**	**77,975**

Reclassification between Level 1 and Level 2 based on balance sheet positions and instruments

Transfers into and out of Level 1 and Level 2 are mainly due to changes in the market activity and consequently in the observability of valuation parameters. Transfers in year 2021 were immaterial and in 2020 as well.

Movements in Level 3

Development of fair value of financial instruments in Level 3

EUR ths.	01.01.2021	Gain/loss in profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Additions to Group	Disposal out of Group	Transfer into Level 3	Transfer out of Level 3	Currency translation	31.12.2021
Assets												
Non-trading financial assets at FVPL	15,287	(255)	-	-	-	-	-	-	-	-	36	15,068
Equity instruments	7,547	(428)	-	-	-	-	-	-	-	-	36	7,155
Debt securities	7,740	173	-	-	-	-	-	-	-	-	-	7,913
Total assets	**15,287**	**(255)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36**	**15,068**

EUR ths.	01.01.2020	Gain/loss in profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Additions to the group	Disposal out of Group	Transfers into Level 3	Transfer out of Level 3	Currency translation	31.12.2020
Assets												
Non-trading financial assets at FVPL	19,632	635	-	22,049	(18,901)	(8,128)	-	-	-	-	-	15,287
Equity instruments	16,457	565	-	8,126	(17,601)	-	-	-	-	-	-	7,547
Debt securities	3,175	70	-	13,923	(1,300)	(8,128)	-	-	-	-	-	7,740
Financial assets at FVOCI	89,262	-	10,406	-	(85,745)	(13,923)	-	-	-	-	-	-
Equity instruments	89,262	-	10,406	-	(85,745)	(13,923)	-	-	-	-	-	-
Total assets	**108,894**	**635**	**10,406**	**22,049**	**(104,646)**	**(22,051)**	**-**	**-**	**-**	**-**	**-**	**15,287**
Liabilities												
Financial liabilities HfT	4,004	-	-	-	(4,004)	-	-	-	-	-	-	-
Derivatives	4,004	-	-	-	(4,004)	-	-	-	-	-	-	-
Total liabilities	**4,004**	**-**	**-**	**-**	**(4,004)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Transfers into and out of Level 3 are mainly due to changes in the market activity and consequently in the observability of valuation parameters.

Gains/losses in profit or loss on Level 3 instruments held at the end of the reporting period

EUR ths.	31.12.2020	31.12.2021
Assets		
Non-trading financial assets at FVPL	482	(255)
Equity instruments	565	(428)
Debt securities	(83)	173
Total assets	**482**	**(255)**
Liabilities		
Financial liabilities HfT	4,004	-
Derivatives	4,004	-
Total liabilities	**4,004**	**-**

Unobservable inputs and sensitivity analysis for Level 3 measurements

In case the fair value measurement of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the balance sheet the parameters where chosen to reflect the market situation at the reporting date.

Range of unobservable valuation parameters used in Level 3 measurements

Financial assets	Type of instrument	Fair value in EUR million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31.12.2021					
Financial assets at FVPL	Non-trading equity instruments (participations)	7.2	Approved budgets	Risk spread used in discounting future cash flows	N/A
	Non-trading debt instrument	1.4	Published NAV adjusted by assessed impairment value	Repayment dates for the worst and for the current scenario, assumed (by very indicative market quotes) exit value	2022-2033
				Risk spread used in discounting future cash flows	50bp
		6.5	Theoretical price with some expert opinion (market unobservable) inputs	Risk spread used in discounting future cash flows	50bp
31.12.2020					
Financial assets at FVPL	Non-trading equity instruments (participations)	7.5	Approved budgets	Risk spread used in discounting future cash flows	N/A
	Non-trading debt instrument	1.7	Published NAV adjusted by assessed impairment value	Repayment dates for the worst and for the current scenario	2021 - 2028
				Risk spreads	50 - 300bp
		6.0	Theoretical price with some expert opinion (market unobservable) inputs	Risk spread used in discounting future cash flows	50bp

Sensitivity analysis using reasonably possible alternatives per product type

	31.12.2020		31.12.2021	
	Fair value changes		Fair value changes	
Eur mil.	**Positive**	**Negative**	**Positive**	**Negative**
Debt securities	0.05	(0.03)	0.00	(0.00)
Income statement	0.05	(0.03)	0.00	(0.00)
Equity instruments*	-	-	-	-
Income statement	-	-	-	-
Total	0.05	(0.03)	0.00	(0.00)
Income statement	0.05	(0.03)	0.00	(0.00)

*Sensitivity analysis is not calculated for equity instruments.

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding fair values. Positive correlation effects between PDs and LGDs were not taken into account in the sensitivity analysis. For non-trading equity instruments increases (decreases) in any of the inputs used for the cost of equity calculation in isolation would result in a lower (higher) fair value.

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- for debt securities range of credit spreads between -50 basis points and 50 basis points
- for equity related instruments the risk spreads shifts by plus and minus 50 basis points

Financial instruments not carried at fair value with fair value disclosed in the notes

EUR ths.	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
31.12.2021					
Assets					
Cash and cash balances	2,907,420	2,907,420	413,763	2,493,657	-
Financial assets at AC	19,496,688	20,733,247	3,244,174	991,759	16,497,314
Loans and advances to banks	49,983	49,998	-	-	49,998
Loans and advances to customers	15,535,047	16,383,942	-	-	16,383,942
of which: Lending for house purchase	9,256,084	9,920,542	-	-	9,920,542
of which: Credit for consumption	1,354,339	1,448,282	-	-	1,448,282
of which: Corporate loans and others	4,924,624	5,015,118	-	-	5,015,118
Debt securities	3,911,658	4,299,307	3,244,174	991,759	63,374
Finance lease receivables	233,435	238,282	-	-	238,282
Assets held for sale	-	-	-	-	-
Trade and other receivables	129,088	128,665	-	-	128,665
Liabilities					
Financial liabilities at AC	20,849,566	20,813,269	502,298	738,005	19,572,967
Deposits from banks	2,893,346	2,891,811	-	-	2,891,811
Deposits from customers	15,972,763	15,913,000	-	-	15,913,000
Debt securities in issue	1,946,931	1,971,932	502,298	738,005	731,630
Other financial liabilities	36,526	36,526	-	-	36,526

EUR ths.	Carrying amount	Fair value	Level 1	Level 2	Level 3
31.12.2020					
Assets					
Cash and cash balances	1,717,486	1,717,486	352,330	1,365,156	-
Financial assets at AC	18,258,897	20,206,626	2,673,284	1,474,376	16,058,966
Loans and advances to banks	49	49	-	-	49
Loans and advances to customers	14,579,144	15,992,602	-	-	15,992,602
of which: Lending for house purchase	8,512,258	9,557,547	-	-	9,557,547
of which: Credit for consumption	1,503,312	1,678,086	-	-	1,678,086
of which: Corporate loans and others	4,563,574	4,756,969	-	-	4,756,969
Debt securities	3,679,704	4,213,975	2,673,284	1,474,376	66,315
Finance lease receivables	241,012	251,748	-	-	251,748
Assets held for sale	-	-	-	-	-
Trade and other receivables	81,774	81,927	-	-	81,927
Liabilities					
Financial liabilities at AC	18,653,506	18,828,256	511,497	1,365,149	16,951,610
Deposits from banks	1,710,255	1,722,698	-	-	1,722,698
Deposits from customers	14,869,015	14,993,431	-	-	14,993,431
Debt securities in issue	2,051,731	2,089,622	511,497	1,365,149	212,976
Other financial liabilities	22,505	22,505	-	-	22,505

As at 31 December 2021 fair value of financial guarantees given amounts EUR -0.5 million (2020: EUR 4.3 million) and fair value of irrevocable commitments given amounts EUR 5.0 million (2020: EUR 47.2 million). All these amounts are in level 3. Positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign.

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted. The fair values of debt securities at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).
The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is determined based on quoted prices in active markets, if available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. Significant input factors for the spread adjustment of the Group's own credit risk for the respective seniority class are credit spreads derived from liquid benchmark bonds and additional indications from external investments banks, which are provided on a regular basis. The applied spreads are validated on a regular basis from an independent Risk Management unit. Moreover optionality is taken into account when calculating the fair value.

For off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) the following fair value approaches are applied:
the fair value of unused loan commitments is estimated using regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated total fair value and the notional amount of the hypothetical loan equivalents represents the fair value of the unused loan commitments. In case of the total fair value being higher than the notional amount of the hypothetical loan equivalents the unused loan commitments have a positive fair value. The fair value of financial guarantees is estimated in analogy to credit default swaps. The fair value of the guarantee is the sum of the present value of the protection leg and the present value of the premium leg. The value of the protection leg is estimated using the PDs

and LGDs of the respective customers, whereas the value of the premium leg is estimated by the present value of the future fee payments to be received. If the protection leg is higher than the premium leg, financial guarantees have a negative fair value.

19. Hedge accounting

The Group makes use of derivative instruments to hedge exposures to interest rate risk. In order for the derivatives and the exposures to qualify for hedge accounting, at inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk offset the fair value changes of the hedging instrument in a range of 80% to 125%. This is assessed both prospectively, i.e. whether the results are expected to be in the range, and retrospectively, i.e. whether the actual results are in the range. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Group are specified internally in the hedge accounting guidance. As permitted by the transitional provisions of IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

On the balance sheet, derivatives designated as hedging instruments are carried at fair value (dirty price). They are presented in the line item ‘Hedge accounting derivatives’ on the asset or liability side depending on whether their fair value is positive or negative.

Fair value hedges

For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the statement of income under the line item ‘Net trading result’. Interest income and expenses on hedging derivatives are reported in the line item ‘Other similar income’ or ‘Other similar expenses’ under ‘Net interest income’. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the statement of income under the line item ‘Net trading result’ and adjusts the carrying amount of the hedged item.
If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under ‘Net interest income’ in the line item ‘Interest income’ if the hedged item was a financial asset or in the line item ‘Interest expenses’ if the hedged item was a financial liability. For portfolio fair value hedges of interest rate risk the fair value adjustment related to the terminated hedge is amortised to the statement of income on a straight-line basis in the line item ‘Other similar income’ under ‘Net interest income’.

Notional amounts of hedged items

		Notional amount	
EUR ths.	**Type of hedged items**	**31.12.2020**	**31.12.2021**
Fair value hedges		**1,145,521**	**1,095,521**
Assets	Bonds at AC	381,224	331,224
Liabilities	Issued bonds	764,297	764,297

The hedge ratio is chosen in compliance with the rules defined in IAS 39. The volume of the hedging instrument which is designated for the hedge relation can never be greater than the volume of the hedged item. If the notional of a hedging derivative is greater than the notional of the hedged item the respective proportion of the derivative is designated as hedging instrument. Further, the tenor of the hedging instrument is never longer than the tenor of the hedged item.

Sources of hedge ineffectiveness can result from:

- designation of hedging instruments and hedged items during their life rather than from their inception
- different discounting curves applied for hedged item and hedging instrument
- different interest tenors of hedging swaps and hedged variable rate items in cash flow hedges
- volatility of present value of floating leg of hedging swaps in fair value hedges
- different trade dates for the hedging instrument and the hedged item
- real prepayments of a loan portfolio deviating from expected prepayments
- credit risk adjustments (CVA, DVA) on the hedging derivatives

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value as of 31 December 2021 are reported. The indicated values for fair value hedges include single hedges, which due to immateriality are not shown separately.

Hedging instruments

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

EUR ths.	Carrying amount		Change in FV for the period used for calculating hedge ineffectiveness	Notional	Timing of the nominal amounts of the instruments			
	Assets	Liabilities			≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years
31.12.2021								
Fair value hedges	**16,454**	**31,844**	**(3,118)**	**1,095,521**	**-**	**-**	**978,924**	**116,597**
Interest rate risk	16,454	31,844	(3,118)	1,095,521	-	-	978,924	116,597
Total gross amounts	**16,454**	**31,844**	**(3,118)**	**1,095,521**	**-**	**-**	**978,924**	**116,597**
Offset	-	-	-	-	-	-	-	-
Total	**16,454**	**31,844**	**(3,118)**	**1,095,521**	**-**	**-**	**978,924**	**116,597**
31.12.2020								
Fair value hedges	**34,345**	**48,373**	**10,987**	**1,145,521**	**50,000**	**-**	**687,700**	**407,821**
Interest rate risk	34,345	48,373	10,987	1,145,521	50,000	-	687,700	407,821
Total gross amounts	**34,345**	**48,373**	**10,987**	**1,145,521**	**50,000**	**-**	**687,700**	**407,821**
Offset	-	-	-	-	-	-	-	-
Total	**34,345**	**48,373**	**10,987**	**1,145,521**	**50,000**	**-**	**687,700**	**407,821**

Hedged items in fair value hedges

EUR ths.	Carrying amount	Hedge adjustments		
		included in the carrying amount	Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
31.12.2021				
Financial assets at AC	**371,792**	**26,007**	**(14,912)**	**-**
Interest rate risk	371,792	26,007	(14,912)	-
Financial liabilities at AC	**(778,028)**	**(14,753)**	**17,972**	**-**
Interest rate risk	(778,028)	(14,753)	17,972	-
31.12.2020				
Financial assets at AC	**448,449**	**40,918**	**547**	**-**
Interest rate risk	448,449	40,918	547	-
Financial liabilities at AC	**795,423**	**32,725**	**(11,196)**	**-**
Interest rate risk	795,423	32,725	(11,196)	-

The hedged items are disclosed in the following line items in the balance sheet:

- Financial assets at amortised cost / debt securities
- Financial liabilities at amortised cost / debt securities issued

Ineffectiveness from fair value hedges is presented under 'Net trading result' in the statement of income.

Application of the Interest Rate Benchmark Reform IAS 39 amendments

The Group also hedges interest rate risks in EUR. However, for these currencies it does not consider to be exposed to uncertainties resulting from the reform. For EUR all the hedges relate to EURIBOR interest rates which have been reformed and are EU Benchmark Regulation compliant.

Fair value hedge of assets

As at 31 December 2021 the Group held in portfolio of financial assets at amortised cost fixed rate bonds denominated in EUR with nominal value of EUR 331.2 million (2020: EUR 381.2 million). As the purchases of these bonds increased exposure to interest rate risk in the period from five to fifteen years, the Group entered into interest rate swap deals in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates.

During the year 2021 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Group recognised a net gain on the hedging instruments in the amount of EUR 15.0 million (2020: net loss EUR 0.3 million). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to EUR 14.9 million (2020: net gain EUR 0.5 million).

Fair value hedge of liabilities

The Group uses hedging to secure its issued fixed rate covered bonds (former mortgage bonds). The list of bonds is disclosed in the note 15 Financial liabilities at amortised cost. As at 31 December 2021 the Group holds covered bonds in total nominal value of EUR 764.3 million (2020: EUR 764.3 million).

During the year 2021 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Group recognised a net loss on the hedging instruments in the amount of EUR 18.0 million (2020: net gain EUR 11.3 million). On the other hand, a net gain on the hedged item attributable to the hedged risk amounted to EUR 18.0 million (2020: net loss EUR 11.2 million).

20. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is carried out between asset and liability derivative positions, while the net position is further offset with variation margin amounts.
The following table shows netting effects on the balance sheet of the Group as well as the impacts of offsetting financial instruments which are subject to offsetting agreements.

Financial assets subject to offsetting and potential offsetting agreements

EUR ths.	Financial assets (gross)	Amounts offset (gross)	Financial assets in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Other financial collateral received	
31.12.2021							
Derivatives	47,874	-	47,874	6,834	-	-	41,040
Hedge accounting	16,454	-	16,454	11,540	-	-	4,914
Total	**64,328**	**-**	**64,328**	**18,374**	**-**	**-**	**45,954**
31.12.2020							
Derivatives	59,994	-	59,994	7,996	-	-	51,998
Hedge accounting	34,345	-	34,345	28,095	-	-	6,250
Total	94,339	-	94,339	36,091	-	-	58,248

Financial liabilities subject to offsetting and potential offsetting agreements

EUR ths.	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Other financial collateral pledged	
31.12.2021							
Derivatives	46,131	-	46,131	6,834	-	30,485	8,812
Hedge accounting	31,844	-	31,844	11,540	-	20,304	-
Total	**77,975**	**-**	**77,975**	**18,374**	**-**	**50,789**	**8,812**
31.12.2020							
Derivatives	56,524	-	56,524	7,996	-	47,301	1,227
Hedge accounting	48,373	-	48,373	28,095	-	20,278	-
Repurchase agreements	50,849	-	50,849	-	-	50,849	-
Total	**155,746**	**-**	**155,746**	**36,091**	**-**	**118,428**	**1,227**

The Group employs master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column ‘Financial instruments’. If the net position is further secured by cash collateral or other financial collaterals the effects are disclosed in columns ‘Cash collateral received / pledged’ and ‘Other financial collateral received / pledged’ respectively.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column ‘Other financial collateral received / pledged’ respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and other financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge. For further details regarding repurchase transactions we refer to note 21 Transfers of financial assets – repurchase transactions and securities lending

21. Transfers of financial assets – repurchase transactions and securities lending

Repurchase and reverse repurchase agreements

Transactions involving sales of securities under an agreement to repurchase them at a specified future date are also known as ‘repos’ or ‘sale and repurchase agreements’. Securities sold in such transactions are not derecognised from the balance sheet, as the Group retains substantially all risks and rewards of ownership, because the securities are repurchased at a fixed price when the transaction ends. Furthermore, the Group is the beneficiary of all coupons and other income payments received on the transferred assets over the period of the transactions. These payments are remitted to the Group or are reflected in the repurchase price.

The cash received upon sale of securities is recognised on the balance sheet with a corresponding obligation to return under the line item ‘Financial liabilities at amortised cost’, sub-items ‘Deposits from banks’ or ‘Deposits from customers’ reflecting the transaction’s economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense which is accrued over the life of the agreement and recorded in the statement of income in the line item ‘Interest expenses’ under ‘Net interest income’.

Financial assets transferred out by the Group under repurchase agreements remain on the Group’s balance sheet and are presented separately under the original balance sheet items in the ‘pledged as collateral’ lines. The measurement category of the transferred financial assets does not change.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as ‘reverse repos’. The consideration paid is recorded on the balance sheet under the line item ‘Financial assets at amortised cost’, sub-items ‘Loans and advances to banks’ and ‘Loans and advances to customers’ reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the statement of income in the line item ‘Interest income’ under ‘Net interest income’.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lending. Securities lent are presented separately under the original balance sheet items in the ‘pledged as collateral’ lines. Fee income from securities lending transactions is presented in the statement of income in the line ‘Fee and commission income’ under ‘Net fee and commission income’. Fee expense incurred on securities borrowing transactions is presented in the statement of income in the line ‘Fee and commission expenses’ under ‘Net fee and commission income’.

	31.12.2020		31.12.2021	
EUR ths.	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**
Repurchase agreements	**45,350**	**50,849**	**-**	**-**
Financial assets at AC	45,350	50,849	-	-
Total	**45,350**	**50,849**	**-**	**-**

The transferred financial instruments consist of bonds and other interest-bearing securities. The total amount of transferred financial assets represent the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge. The associated liabilities from repo transaction, which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows fair values of the transferred assets and associated liabilities for repo transactions with an existing recourse right only on the transferred assets:

EUR ths.	31.12.2020 Fair value of transferred assets	31.12.2020 Fair value of associated liabilities	31.12.2020 Net position	31.12.2021 Fair value of transferred assets	31.12.2021 Fair value of associated liabilities	31.12.2021 Net position
Financial assets at AC	49,846	52,588	(2,741)	-	-	-
Trading assets	-	-	-	-	-	-
Non-trading financial assets at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-
Total	**49,846**	**52,588**	**(2,741)**	**-**	**-**	**-**

22. Collaterals

Carrying amount of financial assets pledged as collaterals

EUR ths.	31.12.2020	31.12.2021
Financial assets at AC	3,540,330	4,323,689
Trading assets	-	-
Non-trading financial assets at FVPL	-	-
Financial assets at FVOCI	-	-
Total	**3,540,330**	**4,323,689**

	Carrying amount of transferred assets					Carrying amount of associated liabilities		
EUR ths.	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Repurchase agreements	Other associated liabilities
As of 31.12.2021								
Financial assets at amortised cost								
Debt securities	2,273,268	-	45,971	113,758	2,113,539	2,317,330	-	2,317,330
Loans and advances to customers	2,050,421	-	-	1,504,000	546,421	1,839,102	-	1,839,102
Assets pledged as collateral	**4,323,689**	**-**	**45,971**	**1,617,758**	**2,659,960**	**4,156,432**	**-**	**4,156,432**

	Carrying amount of transferred assets					Carrying amount of associated liabilities		
EUR ths.	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Repurchase agreements	Other associated liabilities
As of 31.12.2020								
Financial assets at amortised cost								
Debt securities	1,156,351	45,350	47,391	114,757	948,853	1,187,403	50,849	1,136,554
Loans and advances to customers	2,383,979	-	-	1,831,526	552,453	2,096,767	-	2,096,767
Assets pledged as collateral	**3,540,330**	**45,350**	**47,391**	**1,946,283**	**1,501,306**	**3,284,170**	**50,849**	**3,233,321**

The financial assets pledged as collateral consist of loans and advances to customers, bonds and other interest-bearing securities. Collaterals were pledged as a result of repurchase transactions, refinancing transactions with the respective National Bank, loans backing issued mortgage bonds and other collateral arrangements.

In June 2020, the Group entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank. As at 31 December 2021 the Group has a liability in form of cash received in TLTRO shown within other associated liabilities (EUR 500 million). The Group has pledged SK government bond (EUR 77.1 million) and own retained covered bond (EUR 500 million) where mortgage loans are shown as encumbered assets (EUR 546.4 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

In September 2020, the Group entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank again.
As at 31 December 2021 the Group has a liability in form of cash received in TLTRO shown within other associated liabilities
(EUR 1,000 million). The Group has pledged SK government bonds (EUR 843.3 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

In March 2021, the Group entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank in the amount of EUR 1,000 million which is shown within other associated liabilities. The Group has pledged SK government bonds (EUR 906 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

In June 2021, the Group entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank in the amount of EUR 250 million which is shown within other associated liabilities. The Group has pledged SK government bonds (EUR 277.6 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

RISK AND CAPITAL MANAGEMENT

23. Risk management

Risk policy and strategy

A core function of the Bank is taking risks in a conscious and selective manner and professionally steering those risks. Adequate risk policy and risk strategy is essential to the Bank's fundamental financial health and operational business success.

The Bank has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clearly defined governance structure. This structure also applies to monitoring of risk appetite, additional metrics, as well as to the escalation of limit breaches.

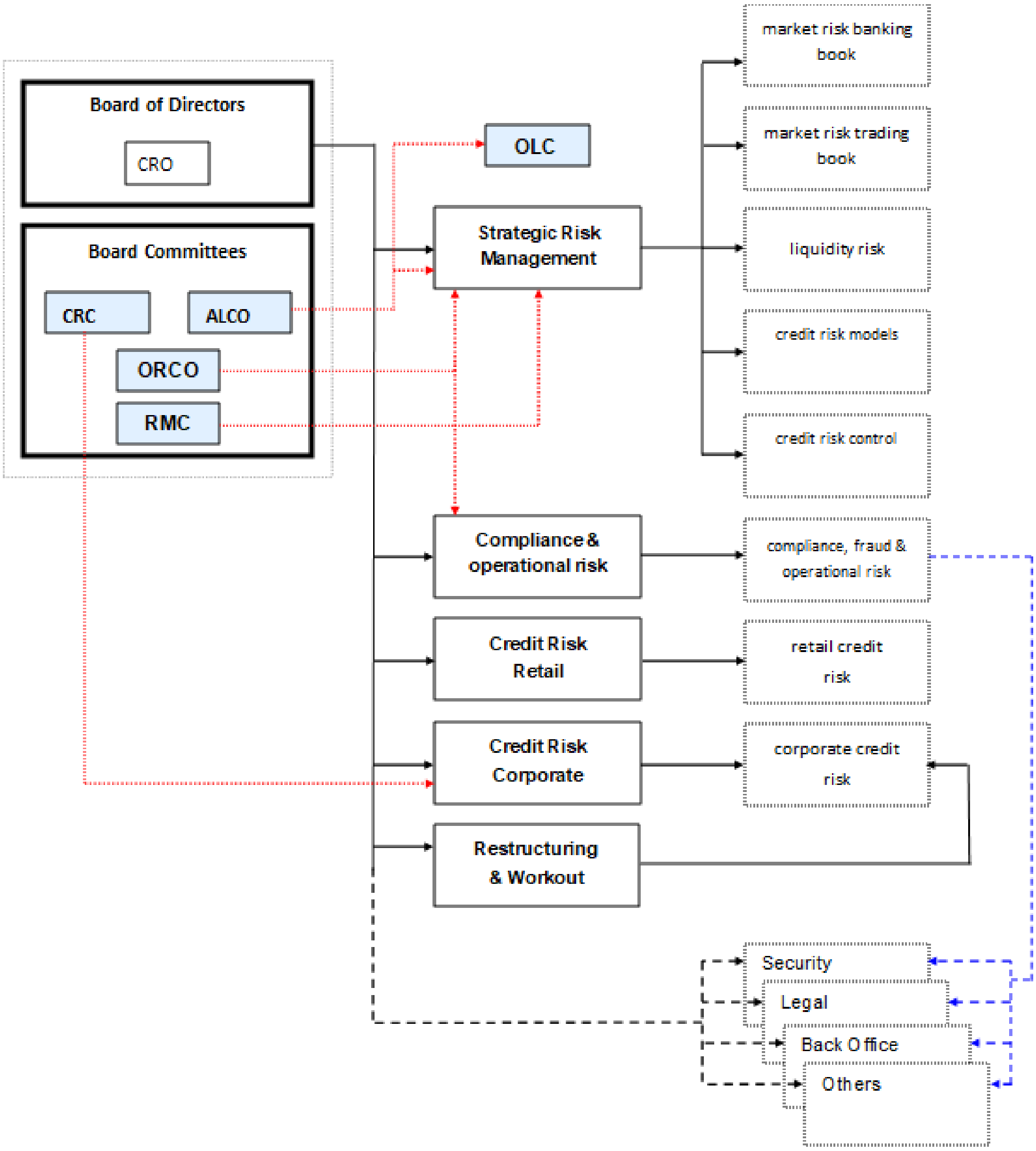
For two consecutive years the Covid-19 pandemic has been the central topic worldwide – and hence also in our core markets, management has continued to steer credit portfolio, including active management of non-performing exposures to further strengthen the risk profile. A forward-looking approach was implemented in the Bank and significant provisions were set aside to reflect the expected deterioration in asset quality as a result of worsening in the macroeconomic outlook due to Covid-19

The Bank uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements

Regulation - CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of the Bank at https://www.slsp.sk/sk/informacie-o-banke/investori/financne-ukazovatele.

Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the organizational structure of risk in the Bank:



Risk management structure

The ultimate risk management body is the Board of Directors. However, it may delegate some of its authority for particular risk management areas to the respective committees. The Board of Directors also designates one of its members to serve as the Chief Risk Officer ('CRO').

Asset & Liability Committee ('ALCO') has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

Credit Risk Committee ('CRC') is the ultimate decision making body for corporate credit risk.

Operational Risk and Compliance Committee ('ORCO') is the authorized body to make decisions on operational risk strategies and procedures, risk appetite and tolerance levels, also decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, CRC and ORCO are composed of the members of the Board of Directors and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee ('OLC') governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the Bank on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, Balance Sheet Management (BSM) and Strategic Risk Management (SRM).

Risk Management Committee ('RMC') is a committee consisting of selected members of the Board of Directors and senior managers. It is responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, as well as for comprehensive stress testing.

The bottom (executive) level of the risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division carries out all activities concerning operative credit risk of corporate clients.
- Retail Credit Risk Management Division is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, early collection process, collateral management and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models.
- Compliance & Security is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue / dashed lines in the chart).
- Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. It is also responsible for monitoring, restructuring of receivables over-due, specific provisions and collateral management.

In the chart above, black lines show the assignment of different risk types to the respective units. Solid black lines show the areas directly subordinated to the Chief Risk Officer. Strategic Risk Management and Corporate Credit Risk Management may also report directly to their respective committees as shown by red / dotted lines.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in the Bank's risk management strategy.

Corporate Credit Risk Management

Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). Furthermore, it monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits, maintains deal and limits documentation for corporate clients.

Retail Credit Risk Management

Retail Credit Risk Management Division formulates the credit policy and internal actions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). Furthermore, it monitors the development of credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limits documentation, as well as performs early and late collection and retail collateral management.

Strategic Risk Management

Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the Group's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to capital requirements regulation and directive and model for economic capital. In addition to this, SRM has two other specific roles:

- credit exposures to Groups, sovereigns and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally monitored by SRM;
- credit lines of Treasury clients (approved by Credit Risk Corporate or Credit Committee) are determined and monitored by SRM.

Compliance & Operational Risk Management

Compliance & Operational Risk Management is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue / dashed lines in the chart).

Restructuring & Work out

Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. It is also responsible for monitoring, restructuring of receivables over-due, specific provisions and collateral management.

Legal services

Legal services Division provides legal support and counsel for the management board, the business units and the central functions, and mitigate legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Comprehensive risk and capital management

Internal Capital Adequacy Assessment Process ('ICAAP') is a process in which all significant risks that the Bank faces must be covered by internal capital (i.e. coverage potential). This means that all material risks are determined, quantified, aggregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Bank consists of the following steps:

- Risk appetite statement (RAS), limits and risk strategy
- Risk materiality assessment
- Risk-bearing capacity calculation
- Stress testing
- Capital management

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the Bank's management in pursuing its strategy.

Risk appetite

The Bank defines the maximum level of risk it is willing to accept in order to meet its business objectives within the Bank's risk appetite (RAS). The RAS acts as a binding constraint to the Bank's business activities within its overall risk appetite via triggers and limits approved by the management board. It is integrated and embedded into Bank's structural processes; including business and risk strategy, budget process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The RAS consists of a set of core and supporting risk metrics providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that are part of the guidelines for managing risks. The core risk metrics are set as ultimate boundaries for the Bank's risk-return target setting. They are also a key part of the annual strategic planning / budgeting process and give an overall picture of capital, liquidity and risk-return trade-offs. The key objective of the RAS is to:

- ensure that the Bank has sufficient resources to support its business at any given point in time and absorb stress events;
- set boundaries for the Bank's risk target setting;
- support the Bank's financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, the Bank creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk the Bank is willing to accept. In order to ensure that the Bank remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- RAS is green: The target risk profile is within the specified boundaries.
- RAS is amber: The undershooting or overshooting of a pre-defined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- RAS is red: The undershooting or overshooting of a pre-defined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, supporting metrics and principles are defined by material risk type in the Bank Risk Strategy based on RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the Bank risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the Bank remains within its RAS.

Risk materiality assessment

The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both, quantitative and qualitative factors, which is conducted for each identified risk type the Bank faces.

The output of the risk materiality assessment is the set of material risks, which have to be quantified and covered by capital. It also includes other risk management practices to control and mitigate the identified risks (material or non-material).

Stress testing

Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99,9% confidence on one-year horizon means an extreme loss that occurs once in thousand years. At this level the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the Bank's positions, thus providing further assurance of internal capital adequacy. Should stress testing results show potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

Risk-bearing capacity calculation

The risk-bearing capacity calculation ('RCC') is ultimately the tool to define capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are aggregated into a capital requirement and compared to the coverage potential and the Bank´s own funds. The integral forecast, risk appetite limit, as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors, Risk management committees and Supervisory board is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of risk limits' utilization, potential losses in stress scenarios and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks) and in the context of Pillar 2, interest rate risks in the banking book, business risk, liquidity risk, residual credit risk and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.92 % confidence level. During the year 2021 the utilization of the economic capital was in the range 48 - 53%.

Other risks, namely credit concentration risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and / or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined with profit of the current year, considering subordinated liabilities and regulatory deductibles, as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the Bank's operations.

Capital management

Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the Bank's business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure day-to-day adherence to the approved risk profile and capital levels.

Risk planning and forecasting
The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both, forward- and backward-looking component, focusing on portfolio and economic environment changes.

Capital allocation
An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Strategic Risk Management and Accounting and Controlling.

24. Own funds and capital requirements

Regulatory scope of application

Hereby Slovenská sporiteľňa, a.s. fulfills the disclosure requirements according to the Capital Requirements Regulation issued by European Parliament and Council (EU) no.575/2013 (CRR) and Articles 437 (1) (a), (d) and (e) CRR.

Regulatory requirements

Since 1 January 2014 the Group has been calculating the regulatory capital and the regulatory capital requirements according to the CRR and the Capital Requirement Directive issued by European Parliament and Council (EU) no.36/2013 (CRD) CRD was enacted in national legislation in the Act on Banks 483/2001.

All requirements as defined in the CRR and technical standards issued by the European Banking Authority (EBA) are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

The Group fulfilled all regulatory capital requirements during the year 2021 and throughout the year 2020 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

Accounting principles

The financial and regulatory figures published by the Group are based on IFRS. Eligible capital components derive from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation for items where the regulatory treatment is not equal to the accounting requirements.

The unified reporting date of the consolidated financial statements and consolidated regulatory figures of the Group is
31 December of each respective year.

Regulatory scope of consolidation

The consolidated regulatory own funds and the consolidated regulatory capital requirements are calculated based on the scope of consolidation stipulated in the CRR.

Consolidated own funds and consolidated capital requirements are calculated according to CRR scope of consolidation as defined in Part one, title II, chapter 2 section 3 of the CRR.

The CRR scope of consolidation consists from credit institutions, investment firms, financial institutions and ancillary service undertakings as defined in Article 4 (1) CRR. Classification of the entities is based on their main business activity. The definition pursuant to CRR differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities, that are subject to full consolidation.

Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 mil. or 1% of the total amount and off-balance sheet items of the parent company. SLSP Group makes use of Article 19 (1) CRR.

According to Article 19 (2) CRR, entities can also be excluded in other cases. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. SLSP Group does not apply Article 19 (2) CRR.

Presentation of the scope of consolidation

The following table shows list of subsidiaries and associates, accounting treatment within the scope of consolidation and classification according to CRR:

Entity Name	The sector of the investee	Structure of the group (relationship)	Accounting treatment IFRS	Accounting treatment CRR scope	Classification acc to Article 4 (27) CRR
LANED a.s.	Non-financial corporations	subsidiary	fully consolidated	fully consolidated	Ancillary service undertaking
Prva stavebna sporitelna, a.s.	Credit institutions	associated company	at equity method	at equity method	Credit institutions
Slovak Banking Credit Bureau, s.r.o.	Non-financial corporations	associated company	at equity method	at equity method	Ancillary service undertaking
Holding Card Service, s.r.o.	Other financial corporation	associated company	at equity method	at equity method	Financial institution
Procurement Services SK, s.r.o.	Non-financial corporations	subsidiary	fully consolidated	not consolidated according to article 19 CRR	Ancillary service undertaking
SLSP Social Finance, s.r.o.	Non-financial corporations	subsidiary	fully consolidated	at equity method	Other than Financial sector entity
Dostupný Domov j.s.a.	Non-financial corporations	associated company of SLSP Social Finance, s.r.o.	at equity method	at equity method	Other than Financial sector entity

As of 31 December 2021 the number of companies consolidated pursuant to IFRS was 7. As of 31 December 2021 the number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR) was 6.

Five entities are part of the regulatory scope of consolidation consolidated at equity method. Four of them are consolidated at equity also in the IFRS scope of consolidation. These entities are Prvá stavebná sporiteľňa, a.s., Slovak Banking Credit Bureau, s.r.o., Holding Card Service, spol. s r.o. and Dostupný Domov j.s.a.

In February 2020, SLSP Social Finance, s.r.o. was established as a subsidiary of the Bank fully consolidated in IFRS scope of consolidation. This entity is not Financial sector entity and is consolidated at equity in regulatory scope of consolidation.

In March 2020 an associate, Dostupný Domov j.s.a. was established by the Bank´s subsidiary SLSP Social Finance, s.r.o. which has an ownership interest in the associate 49.88 % share of the company's share capital. Dostupný Domov j.s.a. is consolidated at equity by the Bank´s subsidiary SLSP Social Finance, s.r.o.

Consolidate own funds

Own funds of an institution according to CRR consist of the sum of the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital of the institution. To assess the capital adequacy, each Tier of the capital after applying all prudential filters and deductions is given in relation to risk-weighted assets.
The regulatory minimum capital ratios including the capital buffers as of 31 December 2021 amount to:

- 9.98% for CET1 (CET1 Pillar 1 requirement 4.5%, capital conservation buffer 2.5%, systemic risk buffer 1%, Other Systemic Important Institution (O-SII) buffer 1% and countercyclical capital buffer specific for the bank 0.98%),
- 11.48% for tier 1 capital (sum of CET1 and AT1)
- 13.48% for total own funds.

Capital buffer requirements are set out in Act on Banks 483/2001
- capital conservation buffer §33b
- Global Systemic Important Institution (G-SII) §33a, §33d ods. 5
- Other Systemic Important Institution (O-SII) buffer §33a, §33d ods. 6
- systemic risk buffer §33a, §33e
- countercyclical buffer §33a, §33c

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP).
The regulatory minimum capital ratios including the capital buffers ans SREP requirements as of 31 December 2021 amount to:
- a CET1 requirement of 10.82%, (Pillar 1 requirement of 4.5%, combined capital buffers of 5.48% and 56.25% of 1.5% Pillar 2 requirement)
- a T1 requirement of 12.61% (Pillar 1 T1 requirement of 6%, combined capital buffers of 5.48% and 75% of 1.5% Pillar 2 requirement)
- a total own funds requirement of 14.98% (Pillar 1 own funds requirement of 8%, combined capital buffers of 5.48% and 1.5% Pillar 2 requirement).

According to SREP, the Group is expected to meet a Pillar 2 Guidance (P2G) of 1.0%. The Pillar 2 Guidance is not MDA (maximum distributable amount) relevant.

	31.12.2020	31.12.2021
Pillar 1		
Minimum CET1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirements	8.00%	8.00%
Combined buffer requirement (CBR)	5.48%	5.48%
Capital conservation buffer	2.50%	2.50%
Institution-specific countercyclical capital buffer	0.98%	0.98%
Systemic risk buffer (SRB)	1.00%	1.00%
O-SII capital buffer	1.00%	1.00%
Minimum CET 1 requirement (incl. CBR)	9.98%	9.98%
Minimum Tier 1 requirement (incl. CBR)	11.48%	11.48%
Minimum Own Funds requirement (incl. CBR)	13.48%	13.48%
Pillar2		
Minimum CET1 requirement	0.84%	0.84%
Minimum T1 requirement	1.13%	1.13%
Minimum Own Funds requirement	1.50%	1.50%
Pillar 2 requirement (P2R)	1.50%	1.50%
Total CET1 requirement for Pillar 1 and Pillar 2	**10.82%**	**10.82%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**12.61%**	**12.61%**
Total Own Funds requirement for Pillar 1 and Pillar 2	**14.98%**	**14.98%**

The following table shows the structure of own funds according to implementing technical standards EBA with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (the positions not relevant for the Group were excluded):

EUR ths.	Article pursuant to CRR	31.12.2020	31.12.2021
Common equity tier 1 capital: instruments and reserves (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	212,000	212,000
Retained earnings	26 (1) (c), 26 (2)	1,171,261	1,226,497
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	(1,860)	(1,139)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	(630)	(947)
Value adjustments due to the requirements for prudent valuation	34, 105	(3,441)	(5,894)
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(18,947)	(16,068)
Securitisation positions which can alternatively be subject to a 1.250% risk weight	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	-	(12,999)
Insufficient coverage for non-performing exposures	36 (1) (m)	-	(32)
Additional deductions of CET1 Capital due to Article 3 CRR	3	-	(222)
Development of unaudited risk provisions during the year (EU No 183/2014)		(107,939)	(1,099)
Common equity tier 1 capital (CET1)	**50**	**1,250,444**	**1,400,097**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	300,000	380,000
Additional tier 1 capital (AT1)	**61**	**300,000**	**380,000**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**1,550,444**	**1,780,097**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	25,699	19,686
IRB excess of provisions over expected losses eligible	62 (d)	45,219	44,542
T2 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 66 (d), 68, 69, 79	(5,248)	(5,240)
Tier 2 capital (T2)	**71**	**65,670**	**58,988**
Total own funds	**4 (1) (118) and 72**	**1,616,113**	**1,839,084**
Capital requirement	**92 (3), 95, 96, 98**	**690,281**	**717,683**
CET1 capital ratio	**92 (2) (a)**	**14.49%**	**15.61%**
Tier 1 capital ratio	**92 (2) (b)**	**17.97%**	**19.84%**
Total capital ratio	**92 (2) (c)**	**18.73%**	**20.50%**

The Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

		31.12.2020		31.12.2021	
EUR ths.	Article pursuant to CRR	Total risk	Capital requirement	Total risk	Capital requirement
Total Risk Exposure Amount	**92 (3), 95, 96, 98**	**8,628,518**	**690,281**	**8,971,039**	**717,683**
Risk weighted assets (credit risk)	92 (3) (a) (f)	7,745,417	619,633	8,100,053	648,004
Standardised approach		208,979	16,718	572,884	45,831
IRB approach		7,536,438	602,915	7,423,634	593,890
Securitisation positions		-	-	103,535	8,283
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	390	31	2,790	223
Operational Risk	92 (3) (e), 92 (4) (b)	858,202	68,656	858,638	68,691
Exposure for CVA	92 (3) (d)	24,509	1,961	9,558	765
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	-	-	-	-

The Group uses AMA model for calculation of RWA and capital requirements arising from operational risk. The calculation is performed on ERSTE Group level.

25. Credit risk

Credit risk arises in the Group's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and credit losses expected if default occurs either within 1 year (Stage 1) or at any time until maturity (Stage 2).
Stage 1 credit losses apply to non-defaulted credit risk exposures without significant increase in credit risk (SICR) since inception, whilst Stage 2 credit losses apply to non-defaulted credit risk exposures for which SICR is observed at the reporting date. It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward-looking information is also considered in the calculation of credit risk.
Operative credit decisions are made by the credit risk management units.

In contrast to large corporates, banks and governments managing credit risk in retail and SME involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs, or micro and small companies. Credit risk related to retail and SME loan portfolios is managed at bank and group level with a common interest in order to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities and supported by underlying profitability.

Internal rating system

The Bank has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.
The assessment of counterparty default risk is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review).

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and risk-weighted assets under Pillar 1 and 2.

The Bank uses the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirements according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behaviour and, where applicable, credit bureau information, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities).

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows a group-wide methodological standard and utilises relevant data covering local market. In this way, the Bank ensures the availability of rating models with the best possible prediction and discriminatory ability across its core regions.
All credit risk rating models are validated on the ongoing basis. Model Validation employs qualitative as well as quantitative validation methods to challenge conceptual soundness, performance and model use aspects. The validation outcomes are approved by the respective model committees and shared with the regulatory bodies. In

addition to the validation process, the Bank applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Credit risk classification

For the disclosure of asset quality (e.g. in this document and to the regulatory bodies) the Bank assigns each customer to one of the following four risk categories:

Low risk
Typically regional customers with well-established and rather long-standing relationships with SLSP or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention
Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term to the Bank. Retail clients with possible payment problems in the past triggering early collection reminders from the Bank side. These clients typically have a good recent payment history.

Substandard
The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing
There are exposure meeting criteria according to default definition. The Bank applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.
Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Credit risk review and monitoring

Retail Credit Risk Management as well as Credit Risk Control in cooperation with Corporate Risk Management conduct periodical reviews of the loan portfolio to ensure an adequate portfolio quality.

All credit limits and the transactions booked within the limits are reviewed at least once a year. Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded.

A group-wide standardised early warning monitoring process is implemented to proactively identify negative developments. The early warning monitoring process for corporate clients is managed by Corporate and Retail Credit Risk Management for respective segments. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed and adequate risk mitigating actions are taken if deemed necessary. Watch list review meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures. Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Adverse portfolio developments regarding the non-performing and substandard loans portfolio of the Bank are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - other demand deposits;
- financial assets held for trading – derivatives (without equity instruments);
- non-trading financial assets at fair value through profit or loss (FVTPL) (without equity instruments);
- financial assets at fair value through other comprehensive income (FVTOCI) (without equity instruments);
- financial assets at amortised cost (AC);
- finance lease receivables;
- positive fair value of derivatives held for trading – hedge accounting;
- trade and other receivables;
- off-balance sheet positions (financial guarantees, irrevocable loan and other commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- credit loss allowances for financial assets;
- credit loss allowances for loan commitments and financial guarantees;
- provisions for other commitments;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between the 31 December 2020 and 31 December 2021, credit risk exposure increased from EUR 21,048 million to EUR 22,569 million. This is an increase of 7.23% or EUR 1.5 million.

Reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure

31.12.2021		Credit loss allowances					
EUR ths.	Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Net carrying amount
Cash and cash balances - other demand deposits	9,658	-	-	-	-	-	9,658
Financial assets at amortised cost	19,828,117	40,664	111,187	157,658	21,919	-	19,496,688
Loans and advances to banks	50,025	42	-	-	-	-	49,983
Loans and advances to customers	15,865,198	39,860	110,713	157,658	21,919	-	15,535,047
of which: Lending for house purchase	9,361,376	18,419	21,341	65,073	459	-	9,256,084
of which: Credit for consumption	1,422,176	5,960	13,380	48,420	76	-	1,354,339
of which: Corporate loans and others	5,081,646	15,481	75,992	44,165	21,384	-	4,924,624
Debt securities	3,912,894	762	474	-	-	-	3,911,658
Finance lease receivables	238,772	1,245	506	3,586	-	-	233,435
Trade and other receivables	135,676	1,838	3	4,747	-	-	129,088
Non-trading financial assets at fair value through profit or loss - Debt securities	7,913	-	-	-	-	-	7,913
Financial assets - held for trading	47,874	-	-	-	-	-	47,874
Positive fair value of derivatives - hedge accounting	16,454	-	-	-	-	-	16,454
Total credit risk exposure on-balance	**20,284,464**	**43,747**	**111,696**	**165,991**	**21,919**	**-**	**19,941,110**
Off-balance	2,284,714	5,358	7,444	572	11,277	1,134	2,258,929
Total credit risk exposure	**22,569,178**	**49,105**	**119,140**	**166,563**	**33,196**	**1,134**	**22,200,039**

Allocation of credit loss allowances is affected by the moratoria of instalments related to COVID-19. The Bank allocated credit loss allowances for the customers with higher risk profile based on their ratings and in case of corporates, the industry was also used. More detailed information about COVID-19 is provided in chapter Covid-19.

31.12.2020 EUR ths.	Gross carrying amount	Credit loss allowances					Net carrying amount
		Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	
Cash and cash balances - other demand deposits	11,023	-	-	-	-	-	11,023
Financial assets at amortised cost	18,639,930	30,403	126,974	166,302	57,354	-	18,258,897
Loans and advances to banks	49	-	-	-	-	-	49
Loans and advances to customers	14,959,631	29,857	126,974	166,302	57,354	-	14,579,144
of which: Lending for house purchase	8,618,372	14,480	29,517	61,976	141	-	8,512,258
of which: Credit for consumption	1,587,560	3,020	18,440	62,702	85	-	1,503,312
of which: Corporate loans and others	4,753,699	12,357	79,017	41,624	57,128	-	4,563,574
Debt securities	3,680,250	546	-	-	-	-	3,679,704
Finance lease receivables	246,820	426	1,185	4,197	-	-	241,012
Trade and other receivables	86,511	435	9	4,293	-	-	81,774
Non-trading financial assets at fair value through profit or loss - 'Debt securities	7,740	-	-	-	-	-	7,740
Financial assets - held for trading	59,994	-	-	-	-	-	59,994
Positive fair value of derivatives - hedge accounting	34,345	-	-	-	-	-	34,345
Total credit risk exposure on-balance	**19,086,363**	**31,264**	**128,168**	**174,792**	**57,354**	**-**	**18,694,785**
Off-balance	1,961,286	3,813	11,657	539	274	832	1,944,171
Total credit risk exposure	**21,047,649**	**35,077**	**139,825**	**175,331**	**57,628**	**832**	**20,638,956**

Stage 1 and Stage 2 comprise not impaired credit risks while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated.

The non-defaulted part of POCI amounted to EUR 107.33 million (2020: EUR 24.63 million), the defaulted part to EUR 5.71 million (2020: EUR 108.817 million).

On the next pages the credit risk exposure is presented according to the following criteria:

- counterparty FINREP sector and financial instrument;
- financial instrument and risk category;
- financial instrument and IFRS 9 stage;
- industry and financial instrument;
- industry and risk category;
- industry and IFRS 9 stage;
- region and financial instrument;
- region and risk category;
- region and IFRS 9 stage;
- impairment view;
- neither past due, not impaired;
- Basel 3 exposure class and financial instrument.

Credit risk exposure by counterparty finrep sector and financial instrument

EUR ths.	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
31.12.2021							
Cash and cash balances - other demand deposits	-	-	9,658	-	-	-	9,658
Financial assets at amortised cost	-	3,890,122	230,139	148,345	4,190,660	11,368,851	19,828,117
Loans and advances to banks	-	-	50,025	-	-	-	50,025
Loans and advances to customers	-	285,411	-	123,036	4,087,900	11,368,851	15,865,198
of which: Lending for house purchase	-	-	-	-	-	9,361,376	9,361,376
of which: Credit for consumption	-	-	-	-	-	1,422,176	1,422,176
of which: Corporate loans and others	-	285,411	-	123,036	4,087,900	585,299	5,081,646
Debt securities	-	3,604,711	180,114	25,309	102,760	-	3,912,894
Finance lease receivables	-	1,329	-	37	234,051	3,355	238,772
Trade and other receivables	-	521	1,857	2,457	130,840	1	135,676
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	7,913	-	-	7,913
Derivatives - held for trading	-	-	7,048	603	40,191	32	47,874
Positive fair value of derivatives - hedge accounting	-	-	16,454	-	-	-	16,454
Total credit risk exposure on-balance	**-**	**3,891,972**	**265,156**	**159,355**	**4,595,742**	**11,372,239**	**20,284,464**
Off-balance	-	55,902	45,385	86,503	1,566,722	530,202	2,284,714
Total credit risk exposure	**-**	**3,947,874**	**310,541**	**245,858**	**6,162,464**	**11,902,441**	**22,569,178**

EUR ths.	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
31.12.2020							
Cash and cash balances - other demand deposits	-	-	11,023	-	-	-	11,023
Financial assets at amortised cost	-	3,643,677	183,023	114,703	3,926,174	10,772,353	18,639,930
Loans and advances to banks	-	-	49	-	-	-	49
Loans and advances to customers	-	271,925	-	104,572	3,810,781	10,772,353	14,959,631
of which: Lending for house purchase	-	-	-	-	-	8,618,372	8,618,372
of which: Credit for consumption	-	-	-	-	-	1,587,560	1,587,560
of which: Corporate loans and others	-	271,925	-	104,572	3,810,781	566,421	4,753,699
Debt securities	-	3,371,752	182,974	10,131	115,393	-	3,680,250
Finance lease receivables	-	510	-	102	240,382	5,826	246,820
Trade and other receivables	-	-	2,013	1,655	82,411	431	86,510
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	7,740	-	-	7,740
Derivatives - held for trading	-	-	8,347	16	51,539	93	59,995
Positive fair value of derivatives - hedge accounting	-	-	34,345	-	-	-	34,345
Total credit risk exposure on-balance	**-**	**3,644,187**	**238,751**	**124,216**	**4,300,506**	**10,778,703**	**19,086,363**
Off-balance	-	33,299	44,914	9,611	1,423,288	450,174	1,961,286
Total credit risk exposure	**-**	**3,677,486**	**283,665**	**133,827**	**5,723,794**	**11,228,877**	**21,047,649**

Credit risk exposure by financial instrument and risk category

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2021					
Cash and cash balances - other demand deposits	9,658	-	-	-	9,658
Financial assets at amortised cost	17,319,652	1,320,524	904,006	283,935	19,828,117
Loans and advances to banks	50,023	2	-	-	50,025
Loans and advances to customers	13,356,735	1,320,522	904,006	283,935	15,865,198
of which: Lending for house purchase	8,332,186	586,927	302,258	140,005	9,361,376
of which: Credit for consumption	1,093,989	162,783	103,984	61,420	1,422,176
of which: Corporate loans and others	3,930,560	570,812	497,764	82,510	5,081,646
Debt securities	3,912,894	-	-	-	3,912,894
Finance lease receivables	200,787	23,287	8,372	6,326	238,772
Trade and other receivables	93,247	8,933	28,636	4,860	135,676
Non-trading financial assets at fair value through profit or loss - 'Debt securities	6,479	-	1,434	-	7,913
Derivatives - held for trading	11,500	35,590	784	-	47,874
Positive fair value of derivatives - hedge accounting	16,454	-	-	-	16,454
Total credit risk exposure on-balance	**17,657,777**	**1,388,334**	**943,232**	**295,121**	**20,284,464**
Off-balance	1,910,768	218,492	153,917	1,537	2,284,714
Total credit risk exposure	**19,568,545**	**1,606,826**	**1,097,149**	**296,658**	**22,569,178**

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2020					
Cash and cash balances - other demand deposits	11,023	-	-	-	11,023
Financial assets at amortised cost	15,909,733	1,193,277	1,185,972	350,948	18,639,930
Loans and advances to banks	47	2	-	-	49
Loans and advances to customers	12,229,436	1,193,275	1,185,972	350,948	14,959,631
of which: Lending for house purchase	7,682,483	555,906	240,975	139,008	8,618,372
of which: Credit for consumption	1,194,071	195,969	115,282	82,239	1,587,561
of which: Corporate loans and others	3,352,882	441,400	829,715	129,701	4,753,698
Debt securities	3,680,250	-	-	-	3,680,250
Finance lease receivables	192,425	29,671	15,887	8,837	246,820
Trade and other receivables	63,446	4,208	14,458	4,399	86,511
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	7,740	-	7,740
Derivatives - held for trading	13,130	41,860	5,003	1	59,994
Positive fair value of derivatives - hedge accounting	34,345	-	-	-	34,345
Total credit risk exposure on-balance	**16,224,102**	**1,269,016**	**1,229,060**	**364,185**	**19,086,363**
Off-balance	1,518,402	169,759	226,479	46,646	1,961,286
Total credit risk exposure	**17,742,504**	**1,438,775**	**1,455,539**	**410,831**	**21,047,649**

Credit risk exposure by financial instrument and IFRS 9 stage

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Cash and cash balances - other demand deposits	9,658	-	-	-	-	9,658
Financial assets at amortised cost	17,542,712	1,935,073	278,608	71,724	-	19,828,117
Loans and advances to banks	50,023	2	-	-	-	50,025
Loans and advances to customers	13,589,161	1,925,705	278,608	71,724	-	15,865,198
of which: Lending for house purchase	8,895,446	325,032	138,977	1,921	-	9,361,376
of which: Credit for consumption	1,213,055	147,615	61,328	178	-	1,422,176
of which: Corporate loans and others	3,480,660	1,453,058	78,303	69,625	-	5,081,646
Debt securities	3,903,528	9,366	-	-	-	3,912,894
Finance lease receivables	208,696	23,750	6,326	-	-	238,772
Trade and other receivables	129,658	1,158	4,860	-	-	135,676
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	7,913	7,913
Derivatives - held for trading	-	-	-	-	47,874	47,874
Positive fair value of derivatives - hedge accounting	-	-	-	-	16,454	16,454
Total credit risk exposure on-balance	**17,890,724**	**1,959,981**	**289,794**	**71,724**	**72,241**	**20,284,464**
Off-balance	1,520,938	170,429	1,099	41,320	550,928	2,284,714
Total credit risk exposure	**19,411,662**	**2,130,410**	**290,893**	**113,044**	**623,169**	**22,569,178**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2020						
Cash and cash balances - other demand deposits	11,023	-	-	-	-	11,023
Financial assets at amortised cost	15,967,218	2,301,151	287,784	83,777	-	18,639,930
Loans and advances to banks	47	2	-	-	-	49
Loans and advances to customers	12,286,921	2,301,149	287,784	83,777	-	14,959,631
of which: Lending for house purchase	7,927,684	550,414	138,640	1,634	-	8,618,372
of which: Credit for consumption	1,247,428	257,796	82,135	201	-	1,587,560
of which: Corporate loans and others	3,111,809	1,492,939	67,009	81,942	-	4,753,699
Debt securities	3,680,250	-	-	-	-	3,680,250
Finance lease receivables	150,316	87,668	8,837	-	-	246,821
Trade and other receivables	80,635	1,476	4,399	-	-	86,510
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	7,740	7,740
Derivatives - held for trading	-	-	-	-	59,994	59,994
Positive fair value of derivatives - hedge accounting	-	-	-	-	34,345	34,345
Total credit risk exposure on-balance	**16,209,192**	**2,390,295**	**301,020**	**83,777**	**102,079**	**19,086,363**
Off-balance	1,221,327	318,487	926	46,024	374,522	1,961,286
Total credit risk exposure	**17,430,519**	**2,708,782**	**301,946**	**129,801**	**476,601**	**21,047,649**

"Not subject to IFRS 9 impairment" means that those balance sheet items are out of IFRS9 rules.

Credit risk exposure by industry and financial instrument

31.12.2021	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - 'Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
			Loans and advances to customers									
EUR ths.		Loans and advances to banks	of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others	Debt securities						
Agriculture, forestry and fishing	-	-	-	-	146,784	-	18,178	272	-	27	28,626	193,887
Mining	-	-	-	-	3,500	-	1,540	71	-	7	29,508	34,626
Manufacturing	-	-	-	-	847,631	9,356	45,883	83,973	-	419	381,947	1,369,209
Electricity, gas, steam and cold air supply, water supply	-	-	-	-	483,662	5,010	6,082	1,696	-	35,522	122,460	654,432
Construction	-	-	-	-	259,894	-	4,419	3,438	-	48	285,854	553,653
thereof: Development of building projects	-	-	-	-	24,229	-	-	-	-	-	227	24,456
Trade	-	-	-	-	657,773	-	14,209	34,538	-	677	236,654	943,851
Transport and storage, Information and communication	-	-	-	-	405,678	88,384	133,299	2,027	-	1,299	156,887	787,574
Hotels and restaurants	-	-	-	-	89,272	-	149	187	-	401	6,264	96,273
Financial and insurance services	9,658	50,025	-	-	123,703	205,423	37	4,313	7,913	24,106	130,912	556,090
thereof: Holding companies	-	-	-	-	75,684	15,168	14	454	-	60	67,984	159,364
Real estate and housing	-	-	-	-	1,409,373	-	1,165	320	-	1,765	297,232	1,709,855
Professional, scientific, technical, administrative and other activities	-	-	-	-	172,859	10	6,049	4,159	-	3	73,829	256,909
Public administration and defense	-	-	-	-	282,260	3,604,711	1,323	-	-	-	55,845	3,944,139
Education, health and art, entertainment and recreation	-	-	-	-	131,576	-	6,286	682	-	22	12,227	150,793
Private households	-	-	9,361,376	1,422,176	67,415	-	153	-	-	32	466,433	11,317,585
Other	-	-	-	-	266	-	-	-	-	-	36	302
Total Credit risk exposure	**9,658**	**50,025**	**9,361,376**	**1,422,176**	**5,081,646**	**3,912,894**	**238,772**	**135,676**	**7,913**	**64,328**	**2,284,714**	**22,569,178**

31.12.2020 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost: Loans and advances to banks	Financial assets at amortised cost: Loans and advances to customers: of which: Lending for house purchase	Financial assets at amortised cost: Loans and advances to customers: of which: Credit for consumption	Financial assets at amortised cost: Loans and advances to customers: of which: Corporate loans and others	Financial assets at amortised cost: Debt securities	Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - 'Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
Agriculture, forestry and fishing	-	-	-	-	143,880	-	25,066	443	-	25	23,600	193,014
Mining	-	-	-	-	46,683	-	1,927	136	-	12	21,289	70,047
Manufacturing	-	-	-	-	994,434	9,356	49,226	43,784	-	1,081	330,122	1,428,003
Electricity, gas, steam and cold air supply, water supply	-	-	-	-	437,725	-	4,339	882	-	41,956	108,828	593,730
Construction	-	-	-	-	199,723	-	4,564	2,847	-	135	237,579	444,848
thereof: Development of building projects	-	-	-	-	25,780	-	-	-	-	-	85	25,865
Trade	-	-	-	-	515,585	-	15,177	26,239	-	813	220,774	778,588
Transport and storage, Information and communication	-	-	-	-	429,475	90,876	129,625	4,144	-	2,165	154,878	811,163
Hotels and restaurants	-	-	-	-	87,558	-	190	98	-	771	11,464	100,081
Financial and insurance services	11,023	49	-	-	102,836	208,265	136	3,668	7,740	42,708	97,606	474,031
thereof: Holding companies	-	-	-	-	39,604	15,160	85	568	-	-	49,136	104,553
Real estate and housing	-	-	-	-	1,196,766	-	1,526	337	-	4,510	245,169	1,448,308
Professional, scientific, technical, administrative and other activities	-	-	-	-	161,197	-	7,804	3,263	-	19	72,720	245,003
Public administration and defense	-	-	-	-	271,614	3,371,752	510	-	-	-	33,299	3,677,175
Education, health and art, entertainment and recreation	-	-	-	-	99,767	-	6,590	671	-	51	13,659	120,738
Private households	-	-	8,618,372	1,587,560	66,079	-	140	-	-	92	390,237	10,662,480
Other	-	-	-	-	377	-	-	-	-	-	63	440
Total Credit risk exposure	**11,023**	**49**	**8,618,372**	**1,587,560**	**4,753,699**	**3,680,249**	**246,820**	**86,512**	**7,740**	**94,338**	**1,961,287**	**21,047,649**

Credit risk exposure by industry and risk category

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2021					
Agriculture, forestry and fishing	110,947	21,825	40,204	20,911	193,887
Mining	34,240	216	170	-	34,626
Manufacturing	1,177,673	100,589	71,341	19,606	1,369,209
Electricity, gas, steam and cold air supply, water supply	455,557	176,258	21,843	774	654,432
Construction	359,298	129,110	56,202	9,043	553,653
thereof: Development of building projects	14,551	62	9,840	3	24,456
Trade	753,701	127,604	42,046	20,500	943,851
Transport and storage, Information and communication	726,693	46,106	10,189	4,586	787,574
Hotels and restaurants	40,471	8,148	41,913	5,741	96,273
Financial and insurance services	497,095	46,650	12,265	80	556,090
thereof: Holding companies	118,605	40,305	454	-	159,364
Real estate and housing	1,332,246	46,162	329,922	1,525	1,709,855
Professional, scientific, technical, administrative and other activities	199,427	26,825	23,972	6,685	256,909
Public administration and defense	3,899,650	42,103	2,386	-	3,944,139
Education, health and art, entertainment and recreation	127,796	12,460	9,694	843	150,793
Private households	9,853,547	822,672	435,002	206,364	11,317,585
Other	204	98	-	-	302
Total Credit risk exposure	**19,568,545**	**1,606,826**	**1,097,149**	**296,658**	**22,569,178**

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2020					
Agriculture, forestry and fishing	91,517	23,895	51,591	26,011	193,014
Mining	69,837	104	106	-	70,047
Manufacturing	1,236,855	82,378	103,170	5,600	1,428,003
Electricity, gas, steam and cold air supply, water supply	407,736	160,807	24,279	908	593,730
Construction	248,593	79,505	112,411	4,339	444,848
thereof: Development of building projects	14,901	47	10,913	3	25,864
Trade	607,571	105,454	41,047	24,515	778,587
Transport and storage, Information and communication	731,899	55,950	19,473	3,843	811,165
Hotels and restaurants	32,000	9,078	57,379	1,624	100,081
Financial and insurance services	455,604	9,280	9,049	99	474,032
thereof: Holding companies	96,447	7,770	336	-	104,553
Real estate and housing	712,856	27,519	602,987	104,945	1,448,307
Professional, scientific, technical, administrative and other activities	144,242	41,270	47,281	12,211	245,004
Public administration and defense	3,675,357	967	851	-	3,677,175
Education, health and art, entertainment and recreation	70,901	40,357	9,171	308	120,737
Private households	9,257,524	801,957	376,571	226,428	10,662,480
Other	14	254	171	-	439
Total Credit risk exposure	**17,742,506**	**1,438,775**	**1,455,537**	**410,831**	**21,047,649**

Credit risk exposure by industry and IFRS9 stage

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Agriculture, forestry and fishing	120,026	50,662	20,451	1,382	1,366	193,887
Mining	29,904	4,485	-	-	237	34,626
Manufacturing	986,723	253,323	19,348	851	108,964	1,369,209
Electricity, gas, steam and cold air supply, water supply	451,764	133,547	775	-	68,346	654,432
Construction	263,898	92,211	8,684	391	188,469	553,653
thereof: Development of building projects	983	23,470	3	-	-	24,456
Trade	633,847	226,280	18,332	6,196	59,196	943,851
Transport and storage, Information and communication	663,029	80,497	4,401	207	39,440	787,574
Hotels and restaurants	3,036	74,121	5,740	12,975	401	96,273
Financial and insurance services	378,488	40,549	78	20	136,955	556,090
thereof: Holding companies	74,514	40,306	-	-	44,544	159,364
Real estate and housing	1,093,188	525,176	1,527	86,827	3,137	1,709,855
Professional, scientific, technical, administrative and other activities	137,366	101,758	6,231	977	10,577	256,909
Public administration and defense	3,937,663	529	-	-	5,947	3,944,139
Education, health and art, entertainment and recreation	91,986	57,821	842	42	102	150,793
Private households	10,620,442	489,451	204,484	3,176	32	11,317,585
Other	302	-	-	-	-	302
Total Credit risk exposure	**19,411,662**	**2,130,410**	**290,893**	**113,044**	**623,169**	**22,569,178**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2020						
Agriculture, forestry and fishing	106,911	58,945	25,977	954	227	193,014
Mining	66,455	3,500	-	-	92	70,047
Manufacturing	816,909	536,018	4,161	1,934	68,981	1,428,003
Electricity, gas, steam and cold air supply, water supply	414,017	115,275	908	-	63,530	593,730
Construction	231,512	66,423	4,050	581	142,282	444,848
thereof: Development of building projects	14,914	10,948	3	-	-	25,865
Trade	439,282	273,780	22,791	4,615	38,120	778,588
Transport and storage, Information and communication	553,658	226,218	3,532	310	27,445	811,163
Hotels and restaurants	2,710	80,860	1,512	14,170	828	100,080
Financial and insurance services	345,877	23,997	99	20	104,039	474,032
thereof: Holding companies	72,528	23,415	-	-	8,609	104,552
Real estate and housing	996,993	338,304	2,043	102,911	8,057	1,448,308
Professional, scientific, technical, administrative and other activities	103,446	105,866	11,513	1,321	22,857	245,003
Public administration and defense	3,676,286	889	-	-	-	3,677,175
Education, health and art, entertainment and recreation	68,278	52,078	308	23	51	120,738
Private households	9,607,937	826,437	225,052	2,963	92	10,662,481
Other	247	192	-	-	-	439
Total Credit risk exposure	**17,430,518**	**2,708,782**	**301,946**	**129,802**	**476,601**	**21,047,649**

Credit risk exposure by region and financial instrument:

31.12.2021		Financial assets at amortised cost										
			Loans and advances to customers									
EUR ths.	Cash and cash balances - other demand deposits	Loans and advances to banks	of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others	Debt securities	Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
Slovakia	-	50,008	9,317,001	1,416,897	5,030,887	3,558,247	238,772	90,397	1,422	40,346	2,204,448	21,948,425
Central and Eastern Europe	5,486	14	17,157	2,856	20,546	42,862	-	18,316	-	19,054	66,089	192,380
Austria	5,261	11	2,286	332	12	-	-	2,376	-	18,548	14,126	42,952
Czech Republic	-	3	4,626	289	20,432	42,862	-	12,103	-	479	50,499	131,293
Hungary	208	-	145	137	20	-	-	3,082	-	27	1,203	4,822
Croatia	14	-	-	53	1	-	-	406	-	-	5	479
Romania	3	-	495	120	17	-	-	342	-	-	16	993
Serbia	-	-	9,605	1,925	64	-	-	7	-	-	240	11,841
Other EU	3,961	1	2,127	186	28,616	306,707	-	23,385	-	4,928	11,597	381,508
Other industrialised countries	211	-	2,727	182	1,517	5,078	-	2,133	6,491	-	286	18,625
Emerging markets	-	2	22,364	2,055	80	-	-	1,445	-	-	2,294	28,240
Total	**9,658**	**50,025**	**9,361,376**	**1,422,176**	**5,081,646**	**3,912,894**	**238,772**	**135,676**	**7,913**	**64,328**	**2,284,714**	**22,569,178**

31.12.2020 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost						Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers				Debt securities						
				of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others							
Slovakia	-	29	8,613,332	1,586,587	4,700,694	3,336,786	246,820	57,889	1,718	51,544	1,926,373	20,521,772
Central and Eastern Europe	10,837	10	2,051	358	12,257	46,878	-	15,197	-	36,545	27,459	151,592
Austria	7,681	8	39	47	2	-	-	3,576	-	36,442	9,861	57,656
Czech Republic	2,979	2	1,360	206	12,235	46,878	-	9,443	-	103	16,688	89,894
Hungary	169	-	114	17	18	-	-	1,633	-	-	901	2,852
Croatia	5	-	110	39	-	-	-	214	-	-	1	369
Romania	3	-	256	20	1	-	-	253	-	-	5	538
Serbia	-	-	172	29	1	-	-	78	-	-	3	283
Other EU	144	8	1,174	169	40,121	291,508	-	12,124	12	6,250	6,899	358,409
Other industrialised countries	42	-	274	95	602	5,078	-	147	6,010	-	4	12,252
Emerging markets	-	2	1,541	351	25	-	-	1,154	-	-	551	3,624
Total	**11,023**	**49**	**8,618,372**	**1,587,560**	**4,753,699**	**3,680,250**	**246,820**	**86,511**	**7,740**	**94,339**	**1,961,286**	**21,047,649**

Credit risk exposure by region and risk category

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2021					
Slovakia	19,022,375	1,566,483	1,068,391	291,176	21,948,425
Central and Eastern Europe	174,588	5,808	6,598	5,386	192,380
Austria	42,377	4	568	3	42,952
Czech Republic	119,523	3,853	2,955	4,962	131,293
Hungary	3,319	13	1,461	29	4,822
Croatia	458	20	-	1	479
Romania	870	-	61	62	993
Serbia	8,041	1,918	1,553	329	11,841
Other EU	334,410	29,052	18,013	33	381,508
Other industrialised countries	16,465	9	2,143	7	18,624
Emerging markets	20,707	5,474	2,004	56	28,240
Total	**19,568,545**	**1,606,826**	**1,097,149**	**296,658**	**22,569,178**

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2020					
Slovakia	17,259,162	1,428,574	1,442,693	391,343	20,521,772
Central and Eastern Europe	146,083	750	4,413	346	151,592
Austria	57,642	-	14	-	57,656
Czech Republic	84,437	740	4,399	318	89,894
Hungary	2,840	10	-	2	2,852
Croatia	369	-	-	-	369
Romania	533	-	-	5	538
Serbia	262	-	-	21	283
Other EU	329,448	7,689	2,344	18,928	358,409
Other industrialised countries	6,031	8	6,010	203	12,252
Emerging markets	1,781	1,756	76	11	3,624
Total	**17,742,505**	**1,438,777**	**1,455,536**	**410,831**	**21,047,649**

Credit risk exposure by region and IFRS 9 stage

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Slovakia	18,904,000	2,097,711	285,430	113,026	548,258	21,948,425
Central and Eastern Europe	133,142	2,146	5,369	17	51,706	192,380
Austria	10,161	353	3	2	32,433	42,952
Czech Republic	106,392	993	4,954	8	18,946	131,293
Hungary	4,440	27	25	3	327	4,822
Croatia	478	-	1	-	-	479
Romania	871	61	60	1	-	993
Serbia	10,800	712	326	3	-	11,841
Other EU	335,957	29,318	33	-	16,200	381,508
Other industrialised countries	11,849	264	7	-	6,505	18,625
Emerging markets	26,714	971	54	1	500	28,240
Total	**19,411,662**	**2,130,410**	**290,893**	**113,044**	**623,169**	**22,569,178**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2020						
Slovakia	17,026,966	2,682,780	301,363	110,897	399,766	20,521,772
Central and Eastern Europe	76,064	17,650	342	3	57,533	151,592
Austria	11,357	-	-	-	46,299	57,656
Czech Republic	60,820	17,522	315	3	11,234	89,894
Hungary	2,851	-	1	-	-	2,852
Croatia	241	128	-	-	-	369
Romania	533	-	5	-	-	538
Serbia	262	-	21	-	-	283
Other EU	318,609	8,079	26	18,902	12,793	358,409
Other industrialised countries	6,038	-	203	-	6,010	12,251
Emerging markets	2,842	272	11	-	500	3,625
Total	**17,430,519**	**2,708,781**	**301,945**	**129,802**	**476,602**	**21,047,649**

Credit risk exposure according to impairment view

31.12.2021	Non-impaired loans								
EUR ths.	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due nor Impaired	Impaired loans	Total Credit risk exposure
Cash and cash balances - other demand deposits	-	-	-	-	-	-	9,658	-	9,658
Financial assets at amortised cost	355,861	329,821	14,564	6,624	3,163	1,688	19,188,322	283,935	19,828,117
Loans and advances to banks	46	45	-	-	-	-	49,980	-	50,025
Loans and advances to customers	355,815	329,776	14,564	6,624	3,163	1,688	15,225,448	283,935	15,865,198
of which: Lending for house purchase	101,844	87,703	7,582	2,971	2,209	1,379	9,119,527	140,005	9,361,376
of which: Credit for consumption	50,836	43,152	4,123	2,627	762	172	1,309,920	61,420	1,422,176
of which: Corporate loans and others	203,135	198,921	2,859	1,026	192	137	4,796,001	82,510	5,081,646
Debt securities	-	-	-	-	-	-	3,912,894	-	3,912,894
Finance lease receivables	6,305	6,289	15	-	-	-	226,139	6,326	238,772
Trade and other receivables	10,875	9,201	991	667	16	-	119,940	4,860	135,676
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	7,913	-	7,913
Financial assets - held for trading	-	-	-	-	-	-	47,874	-	47,874
Positive fair value of derivatives	-	-	-	-	-	-	16,454	-	16,454
Total credit risk exposure on-balance	**373,041**	**345,311**	**15,570**	**7,291**	**3,179**	**1,688**	**19,616,300**	**295,121**	**20,284,464**
Off-balance	-	-	-	-	-	-	2,283,231	1,483	2,284,714
Total credit risk exposure	**373,041**	**345,311**	**15,570**	**7,291**	**3,179**	**1,688**	**21,899,531**	**296,604**	**22,569,178**

31.12.2020	Non-impaired loans								
EUR ths.	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due nor Impaired	Impaired loans	Total Credit risk exposure
Cash and cash balances - other demand deposits	-	-	-	-	-	-	11,023	-	11,023
Financial assets at amortised cost	264,431	241,674	12,279	6,087	2,631	1,759	18,024,550	350,948	18,639,930
Loans and advances to banks	49	49	-	-	-	-	-	-	49
Loans and advances to customers	264,382	241,625	12,279	6,087	2,631	1,759	14,344,300	350,948	14,959,631
of which: Lending for house purchase	78,659	66,836	7,044	2,064	1,644	1,070	8,400,704	139,008	8,618,372
of which: Credit for consumption	48,831	42,445	3,526	1,692	851	318	1,456,490	82,239	1,587,560
of which: Corporate loans and others	136,892	132,344	1,709	2,331	136	371	4,487,106	129,701	4,753,699
Debt securities	-	-	-	-	-	-	3,680,250	-	3,680,250
Finance lease receivables	9,266	8,953	231	82	-	-	228,718	8,837	246,820
Trade and other receivables	6,677	4,975	1,339	211	153	-	75,434	4,399	86,511
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	7,740	-	7,740
Financial assets - held for trading	-	-	-	-	-	-	59,994	-	59,994
Positive fair value of derivatives	-	-	-	-	-	-	34,345	-	34,345
Total credit risk exposure on-balance	**280,374**	**255,602**	**13,849**	**6,380**	**2,784**	**1,759**	**18,441,804**	**364,184**	**19,086,363**
Off-balance	-	-	-	-	-	-	1,914,638	46,648	1,961,286
Total credit risk exposure	**280,374**	**255,602**	**13,849**	**6,380**	**2,784**	**1,759**	**20,356,442**	**410,832**	**21,047,649**

Credit quality for exposures, which are neither past due non impaired

EUR ths.	Low Risk	Management attention	Substandard	Non-performing	Total
31.12.2021					
Cash and cash balances - other demand deposits	9,658	-	-	-	9,658
Financial assets at amortised cost	17,192,469	1,265,715	730,138	-	19,188,322
Loans and advances to banks	49,980	-	-	-	49,980
Loans and advances to customers	13,229,595	1,265,715	730,138	-	15,225,448
of which: Lending for house purchase	8,322,737	570,340	226,450	-	9,119,527
of which: Credit for consumption	1,090,934	156,115	62,871	-	1,309,920
of which: Corporate loans and others	3,815,924	539,260	440,817	-	4,796,001
Debt securities	3,912,894	-	-	-	3,912,894
Finance lease receivables	196,576	22,775	6,789	-	226,140
Trade and other receivables	84,918	8,154	26,869	-	119,941
Non-trading financial assets at fair value through profit or loss - 'Debt securities	6,479	-	1,434	-	7,913
Derivatives - held for trading	11,500	35,590	784	-	47,874
Positive fair value of derivatives - hedge accounting	16,454	-	-	-	16,454
Total credit risk exposure on-balance	**17,518,054**	**1,332,234**	**766,014**	**-**	**19,616,302**
Off-balance	1,910,767	218,492	153,917	53	2,283,229
Total credit risk exposure	**19,428,821**	**1,550,726**	**919,931**	**53**	**21,899,531**

EUR ths.	Low Risk	Management attention	Substandard	Non-performing	Total
31.12.2020					
Cash and cash balances - other demand deposits	11,023	-	-	-	11,023
Financial assets at amortised cost	15,860,466	1,147,193	1,016,892	-	18,024,551
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	12,180,216	1,147,193	1,016,892	-	14,344,301
of which: Lending for house purchase	7,676,067	541,466	183,172	-	8,400,705
of which: Credit for consumption	1,191,600	189,110	75,780	-	1,456,490
of which: Corporate loans and others	3,312,549	416,617	757,940	-	4,487,106
Debt securities	3,680,250	-	-	-	3,680,250
Finance lease receivables	188,394	26,437	13,886	-	228,717
Trade and other receivables	58,135	3,695	13,604	-	75,434
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	7,740	-	7,740
Derivatives - held for trading	13,131	41,860	5,003	-	59,994
Positive fair value of derivatives - hedge accounting	34,345	-	-	-	34,345
Total credit risk exposure on-balance	**16,165,494**	**1,219,185**	**1,057,125**	**-**	**18,441,804**
Off-balance	1,518,400	169,760	226,478	-	1,914,638
Total credit risk exposure	**17,683,894**	**1,388,945**	**1,283,603**	**-**	**20,356,442**

Credit risk exposure by Basel 3 exposure class and financial instrument

EUR ths.	Sovereigns	Institutions	Corporates	Retail	Total
31.12.2021					
Cash and cash balances - other demand deposits	-	9,658	-	-	9,658
Financial assets at amortised cost	3,890,123	230,139	4,076,400	11,631,455	19,828,117
Loans and advances to banks	-	50,025	-	-	50,025
Loans and advances to customers	285,412	-	3,948,331	11,631,455	15,865,198
of which: Lending for house purchase	-	-	-	9,361,376	9,361,376
of which: Credit for consumption	-	-	-	1,422,176	1,422,176
of which: Corporate loans and others	285,412	-	3,948,331	847,903	5,081,646
Debt securities	3,604,711	180,114	128,069	-	3,912,894
Finance lease receivables	1,329	-	226,546	10,897	238,772
Trade and other receivables	522	-	135,008	146	135,676
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	7,913	-	7,913
Derivatives - held for trading	-	7,048	40,794	32	47,874
Positive fair value of derivatives - hedge accounting	-	16,454	-	-	16,454
Total credit risk exposure on-balance	**3,891,974**	**263,299**	**4,486,661**	**11,642,530**	**20,284,464**
Off-balance	55,902	45,390	1,581,614	601,808	2,284,714
Total credit risk exposure	**3,947,876**	**308,689**	**6,068,275**	**12,244,338**	**22,569,178**

EUR ths.	Sovereigns	Institutions	Corporates	Retail	Total
31.12.2020					
Cash and cash balances - other demand deposits	-	11,023	-	-	11,023
Financial assets at amortised cost	3,644,081	183,023	3,818,782	10,994,044	18,639,930
Loans and advances to banks	-	49	-	-	49
Loans and advances to customers	272,329	-	3,693,258	10,994,044	14,959,631
of which: Lending for house purchase	-	-	-	8,618,372	8,618,372
of which: Credit for consumption	-	-	-	1,587,560	1,587,560
of which: Corporate loans and others	272,329	-	3,693,258	788,112	4,753,699
Debt securities	3,371,752	182,974	125,524	-	3,680,250
Finance lease receivables	517	-	230,635	15,668	246,820
Trade and other receivables	330	2,013	83,522	646	86,511
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	7,740	-	7,740
Derivatives - held for trading	-	8,347	51,554	93	59,994
Positive fair value of derivatives - hedge accounting	-	34,345	-	-	34,345
Total credit risk exposure on-balance	**3,644,928**	**238,751**	**4,192,233**	**11,010,451**	**19,086,363**
Off-balance	33,299	44,919	1,362,531	520,537	1,961,286
Total credit risk exposure	**3,678,227**	**283,670**	**5,554,764**	**11,530,988**	**21,047,649**

Expected credit loss measurement

The general principles and standards for credit loss allowances are governed by internal policies in the Bank. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. In addition, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

Classification into stages and definition of credit-impaired financial instruments

There are three main stages outlined for expected credit loss (ECL) determination. The stages approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk (SICR) since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. 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.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2, depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Bank has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. The Bank generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition) and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Significant increase in credit risk determination

Assessment of significant increase in credit risk (SICR) of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria
Quantitative SICR indicators include adverse changes in annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a comparison of the current probability of failure and mix of relative and absolute change thresholds. The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level for each consolidated entity, as necessary, and are subject to initial and on-going validation.

Relative thresholds for SICR assessment by geographical operating segment

	Threshold interval (x times)	
	Min	Max
31.12.2021	1,13	4,08
31.12.2020	1,13	4,08

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR. These rules are applied primarily to leasing and factoring business receivables.
For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not positively concluded.

Qualitative criteria
Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related bank and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. Bank introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic and related economic impacts. Please see Covid-19 disclosures in the chapter below.

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop
A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate). However, the discount rate for financial guarantees shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in Bank’s implementation means using a risk free rate as a proxy.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band, and credit rating band. The bank is using rating method and product information to segment customers and assets into homogenous clusters to calculate collective credit loss allowances.

The calculation of credit loss allowances is done on a daily basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, the Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.
- EAD is based on the amounts Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Group's research department. Given multiple scenarios, the 'neutral' PDs (and, with a few exceptions, also LGDs) are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through-the-cycle observations immediately in year four.

Specific situation of the Covid-19 pandemic and extensive supporting measures, mainly moratoria, lead to the lagging of the macroeconomic reflection in credit risk parameters. Therefore, macroeconomic variables of 2020 were included as additional predictors for future values of credit risk parameters. Variables in year 2020 have same values across all three scenarios.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, the main indication of estimated economic development is the GDP development. We are disclosing sensitivity of the staging and ECL on macro scenarios in the Covid-19 section below.
Following factors, materializing at the end of 2021 led to assigning 40% probability of occurrence to baseline forecast that could not fully reflect them:

- new variant (omicron),
- increasing inflation through-the region with potential effect on the increasing interest rates and
- unstable development of the geo-political situation – conflict Ukraine/Russia – that can as well effect energy prices.

The specific situation of the Covid-19 pandemic and extensive supporting measures additionally lead to the lagging of the macroeconomic reflection in credit risk parameters. Therefore, macroeconomic variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Variables of crisis year 2020 have the same values across all three scenarios. They were updated during 2021 according to the latest statistical offices' updates and publications.

Below we are publishing scenarios used for ECL calculation and as well latest available GDP growth forecasts.

Baseline, upside and downside scenarios of GDP growth

31.12. 2021

Parameter	Scenario	Weight	2020	2021	2022	2023
GDP - real growth (in %)	Macro down	43%	-4.8	-2.5	0.0	0.8
	Macro base	40%	-4.8	3.0	4.2	3.7
	Macro up	17%	-4.8	4.9	6.1	5.6
GDP - Nominal growth (in %)	Macro down	43%	-2.5	2.2	5.9	4.4
	Macro base	40%	-2.5	5.3	9.0	7.5
	Macro up	17%	-2.5	8.1	11.8	10.3
Unemployment rate (in %)	Macro down	43%	6.7	10.8	11.2	10.7
	Macro base	40%	6.7	7.0	6.4	5.7
	Macro up	17%	6.7	5.7	5.1	4.4
Inflation - CPI (in %)	Macro down	43%	1.6	2.1	1.1	1.4
	Macro base	40%	1.6	5.2	3.2	3.5
	Macro up	17%	1.6	6.3	4.3	4.6
Unemployment rate - shift 12 months (in %)	Macro down	43%	5.8	6.7	10.8	11.2
	Macro base	40%	5.8	6.7	7.0	6.4
	Macro up	17%	5.8	6.7	5.7	5.1
GDP - YtY (in %)	Macro down	43%	-7.3	2.3	2.5	0.9
	Macro base	40%	-7.3	7.8	1.2	-0.5
	Macro up	17%	-7.3	9.7	1.2	-0.5

31.12.2020

Parameter	Scenario	Weight	2020	2021	2022	2023
GDP - real growth (in %)	Macro down	40%	-7.1	-2.5	0	0.8
	Macro base	35%	-7.1	3	4.2	3.7
	Macro up	25%	-7.1	4.9	6.1	5.6
GDP - Nominal growth (in %)	Macro down	40%	-5.39	2.2	5.9	4.4
	Macro base	35%	-5.39	5.3	9	7.5
	Macro up	25%	-5.39	8.1	11.8	10.3
Unemployment rate (in %)	Macro down	40%	7.19	10.8	11.2	10.7
	Macro base	35%	7.19	7	6.4	5.7
	Macro up	25%	7.19	5.7	5.1	4.4
Inflation - CPI (in %)	Macro down	40%	1.49	2.1	1.1	1.4
	Macro base	35%	1.49	5.2	3.2	3.5
	Macro up	25%	1.49	6.3	4.3	4.6
Unemployment rate - shift 12 months (in %)	Macro down	40%	5.87	7.2	10.8	11.2
	Macro base	35%	5.87	7.2	7	6.4
	Macro up	25%	5.87	7.2	5.7	5.1
GDP - YtY (in %)	Macro down	40%	-8.93	4.6	2.5	0.9
	Macro base	35%	-8.93	10.1	1.2	-0.5
	Macro up	25%	-8.93	12	1.2	-0.5

In order to reflect on the higher volatility of macro-economic variables estimates and significantly higher downward risk of macro-economic recovery due to current developments of the Covid-19 pandemics we have introduced a conservative downside scenario with relatively high probability of occurrence as shown in the GDP overview table above.

Bank recognizes additional challenges caused by the ESG (environmental, social and governance) risks. We are in the process of analyses how to incorporate these risks into ECL measurement. We have not included additional overlays for ESG risks for year-end 2021. However, due to our considerate approach to the current situation we believe that ECL represents the best estimate of the expected credit losses as of 31 December 2021.

Covid-19

The Covid-19 pandemic has been causing high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, bridge financing, the state temporarily paying workers' salaries to avoid redundancies, hardship funds for one-person and micro businesses) and moratoria programs were introduced to support citizens and companies (similar measures have been introduced also for other markets where parent company of the Group operates). While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on customers

Immediately upon the crisis showing severe economic impacts in our region (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support Group´s clients to the utmost extent, and on the other hand, manage the respective risks and bearing the responsibility of Group towards all stakeholders in mind.
In these circumstances, in order to minimize the medium- and long-term economic impacts of the efforts taken to contain the COVID-19 pandemic, Slovak government have implemented several support measures. These measures introduced in Act. 67/2020 include moratorium on payments of credit obligations (1. EBA-compliant legislative moratoria) or giving financial support through loans with state guarantee (2. Public guarantee schemes). In cases where clients did not meet all predefined criteria required by legislation, individual solutions could be agreed (3. Other Covid-19 related measures).

In order to qualify moratorium on payments as EBA-compliant moratoria several conditions must be met:

a) The moratorium was launched in response to the COVID-19 pandemic,
b) The moratorium has to be broadly applied,
c) The moratorium has to apply to a broad range of obligors,
d) The same moratorium offers the same conditions,
e) The moratorium changes only schedule of payments,
f) The moratorium does not apply to new loans granted after the launch of the moratorium.

Credit risk exposure of non-financial corporations by industry – measures applied in response to the COVID-19 crisis

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2021			
Agriculture, forestry and fishing	-	179	6,393
Mining	-	-	719
Manufacturing	-	-	62,391
Electricity, gas, steam and cold air supply, water supply	-	-	2,935
Construction	4	18	35,210
Trade	-	194	61,793
Transport and storage, Information and communication	64	18	20,647
Hotels and restaurants	10	758	9,225
Financial and insurance services	1,266	-	4,268
Real estate and housing	-	3	16,674
Professional, scientific, technical, administrative and other activities	-	31	4,329
Total	**1,344**	**1,201**	**224,584**

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2020			
Agriculture, forestry and fishing	10,923	1,201	3,973
Mining	35,408	30	38,181
Manufacturing	229	-	2,768
Electricity, gas, steam and cold air supply, water supply	19,825	392	20,128
Construction	14,279	1,713	41,188
Trade	18,845	63	14,195
Transport and storage, Information and communication	11,227	11,440	7,066
Hotels and restaurants	100,028	807	1,604
Financial and insurance services	6,231	83	7,860
Real estate and housing	3,818	11	1,940
Total	**220,813**	**15,740**	**138,903**

Loans and advances of non-financial corporations to which the measures applied in the response to Covid-19 were granted and are currently valid (have not been expired), amounted to EUR 2.5 million as of 31 December 2021 (excluding public guarantee schemes). Significant majority of the support measures expired not resulting in a severe negative effect on the portfolio quality.

Credit risk exposure of households and other financial institutions – measures applied in response to the COVID-19 crisis:

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2021			
Private households	82	45,869	10,206
Financial and insurance services	-	-	364
Total	**82**	**45,869**	**10,570**

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2020			
Private households	994,091	78,152	6,918
Financial and insurance services	364	-	111
Total	**994,455**	**78,152**	**7,029**

Loans and advances of households to which the measures applied in the response to Covid-19 were granted and are currently valid (have not been expired), amounted to EUR 46 million (excluding public guarantee schemes), which is significantly lower than EUR 1.072 million as of 31 December 2020. Most of the measures expired during January and February 2021 not resulting in a severe negative effect on the portfolio quality.

For clients with expired measures and still having difficulties going back to normal payment calendar, the Group provides opportunity to lower loan payments to 25% of original loan payment for 6 months. This lowering of loan payments will be subject to standard forbearance assessment.

Loans and advances to which the measures applied in the response to Covid-19 have been treated as modified from the view of IFRS 9. However the effect of the modified contractual cash flows discounted by original effective interest rate compared to net present value of original cash flows was considered as immaterial. Due to this the Group does not recognize any modification gain or loss.

Effect on business of bank

In March 2020, Risk and Business divisions started a joint initiative aiming to quickly provide a harmonized guidance for a focused industry approach within Erste Group, reflecting the changed economic environment. Industries and sub-industries were categorized into critical, high, medium and low expected impacts due to Covid-19 creating an "Industry Heat Map". Critical and high industries equal to "High risk" category that is further used in tables presented below. The categorization is based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities. The Industry Heat Map is reassessed on quarterly basis.

Main drivers for assigning corresponding green (low impact), yellow (medium impact), amber (high impact) and red (critical impact) industry classification was the assessment of both, short-term as well as medium-term impacts of the crisis on the specific (sub)industry. E.g. a complete lock-down of businesses like hotels or passenger air transport resulted in "red" classification on short-term view and based on expected re-opening/recovery remained on "amber" or "red" or was assessed as "yellow" or "green" on medium-term view. A respective business and risk strategy for the (sub)industries was formulated based on the assessment. The assessed risk for the specific (sub)industry can lead to strategic recommendations (e.g. to temporarily limit financing for specific categories to existing clients only) and/or the revision of underwriting standards.

In order to address COVID-19 pandemic induced crisis, the Group introduced COVID-19 SICR overlays (described in detail below in section Effect on Expected Credit Loss) where exposures were moved from Stage 1 to Stage 2 based on certain rules. In Q4 2021 the reassessment of Industry Heat Map led to a change in classification where almost all industries were assessed in better categories compared to 2020 with few exception where Covid still has a significant impact on their businesses, e.g. Hotels, Manufacturing.

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – industry heatmap:

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
31.12.2021								
Agriculture, forestry and fishing	120,025	50,662	20,451	1,382	192,521	1,366	193,887	17,460
Mining	29,904	4,485	-	-	34,388	237	34,625	161
Manufacturing	-	-	-	-	-	-	-	-
Electricity, gas, steam and cold air supply, water supply	986,723	253,323	19,348	851	1,260,244	108,964	1,369,209	21,885
Construction	5,902	7,155	11,972	3	25,032	50	25,082	2,511
thereof: Development of building projects	451,765	133,547	775	-	586,088	68,346	654,434	19,587
Trade	263,898	92,211	8,684	391	365,182	188,470	553,653	12,628
Transport and storage, Information and communication	633,847	226,280	18,332	6,196	884,655	59,196	943,851	30,043
Hotels and restaurants	73,443	114,596	8,853	1,035	197,927	6,279	204,206	13,395
Financial and insurance services	663,028	80,497	4,402	207	748,134	39,440	787,574	8,164
thereof: Holding companies	156	26,947	113	-	27,216	50	27,266	478
Real estate and housing	3,036	74,120	5,740	12,975	95,871	401	96,272	7,522
Professional, scientific, technical, administrative and other activities	2,932	74,120	5,740	12,975	95,767	401	96,169	7,522
Public administration and defense	378,488	40,549	79	20	419,137	136,955	556,091	3,376
Education, health and art, entertainment and recreation	1,093,188	525,176	1,525	86,827	1,706,716	3,137	1,709,853	53,949
Private households	441,717	453,098	359	86,827	982,001	3,014	985,015	46,640
Other	137,366	101,758	6,231	975	246,331	10,577	256,908	8,909
Agriculture, forestry and fishing	40,575	95,002	4,393	958	140,929	3,636	144,565	6,898
Mining	3,937,663	529	-	-	3,938,191	5,947	3,944,139	981
Manufacturing	91,986	57,821	842	43	150,692	102	150,793	3,450
Electricity, gas, steam and cold air supply, water supply	34,454	24,165	92	-	58,711	102	58,813	1,040
Construction	10,620,440	489,451	204,484	3,176	11,317,552	32	11,317,583	181,017
thereof: Development of building projects	303	-	-	-	303	-	303	3
Total	**19,411,658**	**2,130,409**	**290,894**	**113,044**	**21,946,005**	**623,170**	**22,569,174**	**369,135**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
31.12.2020								
Agriculture, forestry and fishing	106,910	58,945	25,977	954	192,787	227	193,014	18,576
Mining	66,454	3,500	-	-	69,954	92	70,046	176
of which high risk	62,563	87	-	-	62,650	-	62,650	157
Manufacturing	816,909	536,018	4,161	1,934	1,359,022	68,981	1,428,003	24,692
of which high risk	237,648	423,315	1,370	1,238	663,571	26,175	689,746	14,541
Energy and water supply	414,016	115,275	908	-	530,199	63,530	593,729	16,749
Construction	231,513	66,423	4,050	581	302,567	142,282	444,849	9,398
Trade	439,282	273,780	22,791	4,615	740,468	38,120	778,588	30,596
of which high risk	115,810	183,967	5,119	3,730	308,626	13,879	322,505	12,141
Transport and communication	553,659	226,218	3,533	310	783,720	27,445	811,165	11,930
of which high risk	156,808	78,129	273	-	235,210	1,079	236,289	1,998
Hotels and restaurants	2,710	80,860	1,512	14,170	99,252	828	100,080	7,325
of which high risk	2,710	80,860	1,512	14,170	99,252	828	100,080	7,325
Financial and insurance services	345,877	23,997	99	20	369,993	104,039	474,032	1,424
Real estate and housing	996,992	338,304	2,043	102,911	1,440,250	8,057	1,448,307	71,267
of which high risk	444,716	316,259	631	84,009	845,615	7,728	853,343	48,667
Services	103,445	105,866	11,513	1,321	222,145	22,857	245,002	13,597
of which high risk	65,828	98,922	10,539	1,103	176,392	4,494	180,886	11,846
Public administration	3,676,286	889	-	-	3,677,175	-	3,677,175	733
Education, health and art	68,278	52,078	308	23	120,687	51	120,738	4,006
of which high risk	14,287	17,005	154	-	31,446	51	31,497	754
Private households	9,607,937	826,436	225,052	2,963	10,662,388	92	10,662,480	198,201
Other	247	192	-	-	439	-	439	23
Total	**17,430,516**	**2,708,781**	**301,947**	**129,802**	**20,571,046**	**476,601**	**21,047,647**	**408,693**

Effect on Expected Credit Loss

The Bank kept its model for ECL (expected credit loss) consistent with prior periods. The Bank has enhanced few areas mainly in the credit risk parameters and SICR (significant increase in credit risk) assessment process in order to address COVID-19 pandemic induced crisis.

Credit risk parameters were affected by the macroeconomic development. The Bank is using macro shift translation models which the Bank has implemented for purposes of external and internal stress test to translate macro variables to parameters' shifts. Unprecedented state support measures lead to a significant delay in the observed defaults. Therefore, the Bank decided to adjust credit risk parameters to a different point in time (PiT) value – post financial crisis 2009-2011 (in previous year, financial crisis from 2008-2009 was used as PiT). Additionally, various expected macroeconomic developments are incorporated as forward-looking information (FLI).
The Bank uses three scenarios as a basis for the credit risk parameters' shift incorporation. The Baseline scenario is constructed by the Erste Group macro research team which leverages on the network of local macroeconomic experts in our core markets. The baseline scenario is generally aligned with other available external forecasts (e.g.: ECB, IMF, EU Commission).

Upside and downside scenarios are generated using internal statistical methodology based on the long-time horizon time series of macroeconomic variables.

The Bank has also used its internal COVID-19 related stress test scenario in constructing the downside scenarios. Due to higher volatility of the macro predictions, the Bank assigned for year 2021 equal or higher probability to the downside scenario rather than to the baseline scenario.

The Bank uses a 1-year period forward looking prediction to be incorporated into credit risk parameters. After the first year the Bank reverses to using through the cycle observed values. During current ECL estimation we used point in time shift from post-crisis period in 2009-2011 and as forward-looking prediction we used macro prediction for 2021.

The Bank has kept all the standard triggers for SICR assessment and has added additional ones such as COVID-19 SICR overlays. In order to properly identify portfolios with higher risk of default and addressing drawbacks in SICR identification due to the current COVID-19 situation and COVID-19 measures, the Bank decided to implement COVID-19 SICR overlays. They follow standard SICR assessment process and identify additional portfolios to be migrated to lifetime ECL measurement - Stage 2 (they cannot be used to over-ride standard stage 2 migrations back to stage 1).

In order to quantify COVID-19 SICR overlay, the Bank uses 3 negative information:

1. COVID-19 flag
2. Industry Heat Map information (not relevant for private individuals)
3. the level of the current 1Y IFRS PD

as factors which combination leads to COVID-19 SICR overlay assessment.

The Bank established a COVID-19 flag in the systems. The COVID-19 flag indicates any supporting measure granted to the customer irrespective whether legal or private moratorium, EBA guideline compliant or not. All these flags are considered as relevant and are referred to as COVID-19 flag for the purpose of COVID-19 SICR overlay. Applying for COVID-19 measures, even if not by itself, in combination with other negative information would point to current weakness and higher vulnerability to default in our view.

In order to distinguish between opportunistic applicants and those who really need the measure to cover a worsened situation, the Bank set 1Y IFRS PD threshold of 250 bps as second negative information (i.e. if the Bank has only industry heat map negative information or COVID-19 flag as the negative information). In case there exists already a combination of two negative information, the Bank does not need any PD discriminator – i.e. COVID-19 flag and high-risk industry combination would result to Stage 2 migration irrespective of current PD. Critical industry segment designation is the only criteria that would lead to Stage 2 on its own.

To summarize COVID-19 SICR overlay rules that would result to Stage 2 migration are as follows:

1. Private individuals
   a. COVID-19 flag + PD
2. Non-private individuals
   a. COVID-19 flag + medium risk industry + PD
   b. COVID-19 flag + high risk industry (irrespective of PD)
   c. High risk industry + PD (irrespective of COVID-19 flag)
   d. Critical risk industry (irrespective of PD and COVID-19 flag)

After moratoria will end for clients, the Bank will still keep SICR overlays active for six months in order to compensate for lacking information. In case of private individuals we are addressing via these overlays mainly lacking information for the score-card variables on the delinquency. That means, once moratoria is lifted, and scorecard shall get complete information for sufficiently long time we would be releasing overlays.

In case of non-private individuals we are addressing increased risk specific to certain industry and lack of information due to lagging of the financial information captured in current financial statements (that serves as basis for rating assessment). In case of moratoria we have set up therefore observation period in order to have possibility to monitor delinquency. Corporate business and their default probabilities are tied to development of the economy. We are observing GDP in the regular FLI process. Therefore, we have selected second criteria for non-private individuals SICR overlays release improvement of the economy in the degree expected when the ECL estimate for crises coverage was built.

List of considerations to be followed before stage overlays are lifted is listed below.

Non-private individuals
Additional observations necessary prior the Stage Overlays rules cancelation:

- two quarters of realized macro recovery and confirmation of the continuous recovery in the next years -> this means:
  - two consecutive quarters of positive GDP development;
  - in those two quarters forecast for end of the year and next year cannot be significantly below baseline FLI estimates for the same period

  AND
- majority of the credit portfolio is re-rated, using financial information not affected by COVID supporting measures. Financial information entering re-rating during 2021 is mostly from 2020, it is affected by support measures, and therefore we decided to keep overlay over YE 2021.

Private individuals

- minimum of 6 months period after moratoria expiration

In case of private individuals the Bank already sees release of ECL where the 6 month period after moratoria expiration already passed. Most of the moratoria expired in January and February and the Bank released approximately 8 mil. of provisions in Retail and 16 mil. In Corporate portfolio.

The sensitivity analyses tables below present staging splits of the current performing exposure and ECL. Movements of exposures between Stage 1 and Stage 2 and resulting changes in ECL triggered by effect of COVID-19 SICR overlays and FLI macro overlays is shown. Effects on industry segments and high-risk industry subsegments (high risk and critically impacted industries) are disclosed. For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. For Exposure a positive sign (+) equals increase of exposure while a negative sign (-) equals decrease of exposure. Values presented as sensitivities are results of internal simulations.

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic

Impact on credit risk exposure by industry

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021						
Agriculture and forestry	120,025	50,662	23,548	(23,548)	8,307	(8,307)
Mining	29,904	4,485	4,480	(4,480)	-	-
of which high risk	-	-	-	-	-	-
Manufacturing	986,723	253,323	163,011	(163,011)	13,720	(13,720)
of which high risk	5,902	7,155	5,585	(5,585)	562	(562)
Energy and water supply	451,765	133,547	2,627	(2,627)	39	(39)
Construction	263,898	92,211	26,023	(26,023)	5,357	(5,357)
Trade	633,847	226,280	145,619	(145,619)	12,141	(12,141)
of which high risk	73,443	114,596	110,701	(110,701)	1,963	(1,963)
Transport and communication	662,971	80,497	42,443	(42,443)	2,480	(2,480)
of which high risk	156	26,947	26,362	(26,362)	(75)	75
Hotels and restaurants	2,932	74,120	42,844	(42,844)	1,184	(1,184)
of which high risk	2,932	74,120	42,844	(42,844)	1,184	(1,184)
Financial and insurance services	378,488	40,549	6	(6)	(27)	27
Real estate and housing	1,115,038	525,176	255,431	(255,431)	2,038	(2,038)
of which high risk	441,717	453,098	217,609	(217,609)	2,254	(2,254)
Services	137,368	101,758	91,732	(91,732)	821	(821)
of which high risk	40,575	95,002	88,855	(88,855)	696	(696)
Public administration	3,937,663	529	-	-	-	-
Education, health and art	91,986	57,821	24,380	(24,380)	665	(665)
of which high risk	34,454	24,165	20,683	(20,683)	374	(374)
Households	10,620,440	489,451	1,273	(1,273)	9,992	(9,992)
Other	303	-	-	-	-	-
Total	**19,433,349**	**2,130,409**	**823,418**	**(823,418)**	**56,717**	**(56,717)**

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020						
Agriculture and forestry	106,828	58,944	18,824	(18,824)	16,275	(16,275)
Mining	66,454	3,500	1,548	(1,548)	166	(166)
of which high risk	62,563	87	3	(3)	60	(60)
Manufacturing	816,909	536,018	326,700	(326,700)	23,801	(23,801)
of which high risk	237,648	423,315	267,664	(267,664)	9,881	(9,881)
Energy and water supply	414,016	115,275	3,817	(3,817)	313	(313)
Construction	231,513	66,423	9,879	(9,879)	9,699	(9,699)
Trade	439,282	273,769	223,569	(223,569)	27,100	(27,100)
of which high risk	115,810	183,967	163,833	(163,833)	13,796	(13,796)
Transport and communication	553,558	226,218	120,413	(120,413)	6,085	(6,085)
of which high risk	156,808	78,129	44,921	(44,921)	124	(124)
Hotels and restaurants	2,701	80,860	53,040	(53,040)	1,154	(1,154)
of which high risk	2,701	80,860	53,040	(53,040)	1,154	(1,154)
Financial and insurance services	345,885	23,997	21	(21)	341	(341)
Real estate and housing	1,023,561	338,304	190,758	(190,758)	14,789	(14,789)
of which high risk	444,716	316,259	190,758	(190,758)	14,680	(14,680)
Services	103,452	105,866	87,179	(87,179)	3,969	(3,969)
of which high risk	65,828	98,922	85,424	(85,424)	1,640	(1,640)
Public administration	3,676,286	889	-	-	-	-
Education, health and art	68,278	52,078	20,989	(20,989)	386	(386)
of which high risk	14,287	17,005	16,037	(16,037)	106	(106)
Households	9,607,937	826,436	478,785	(478,785)	(1,139)	1,139
Other	247	203	-	-	151	(151)
Total	**17,456,907**	**2,708,780**	**1,535,522**	**(1,535,522)**	**103,090**	**(103,090)**

Impact on credit loss allowances by industry

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021						
Agriculture and forestry	978	4,783	(689)	1,592	387	1,460
Mining	68	92	(23)	76	12	(1)
of which high risk	-	-	-	-	-	-
Manufacturing	5,909	9,296	(1,534)	4,034	1,375	1,446
of which high risk	14	312	(64)	209	11	35
Energy and water supply	1,423	17,529	(52)	134	266	206
Construction	2,206	4,265	(150)	425	537	478
Trade	2,664	10,013	(1,019)	3,894	850	803
of which high risk	204	3,766	(734)	2,822	248	190
Transport and communication	2,130	2,865	(258)	865	539	303
of which high risk	-	379	(99)	333	41	(12)
Hotels and restaurants	13	3,975	(313)	1,130	(53)	276
of which high risk	13	3,975	(313)	1,130	(53)	276
Financial and insurance services	624	2,607	-	-	147	(6)
Real estate and housing	5,217	20,038	(3,336)	8,236	484	454
of which high risk	2,806	16,220	(2,941)	7,458	465	488
Services	606	4,665	(867)	3,470	398	140
of which high risk	184	4,169	(721)	3,257	192	170
Public administration	964	16	-	-	-	-
Education, health and art	263	2,614	(207)	714	105	85
of which high risk	58	914	(150)	569	55	67
Households	26,036	36,377	(23)	88	8,436	1,146
Other	3	2	-	-	2	-
Total	**49,104**	**119,140**	**(8,472)**	**24,659**	**13,485**	**6,789**

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020						
Agriculture and forestry	1,168	5,480	(568)	1,275	462	2,104
Mining	160	16	(1)	4	(1)	11
of which high risk	154	4	-	-	(1)	3
Manufacturing	2,847	17,323	(2,388)	6,560	2,071	1,331
of which high risk	919	11,425	(1,893)	5,313	1,255	416
Energy and water supply	1,425	14,611	(22)	90	428	192
Construction	2,106	3,964	(182)	372	871	911
Trade	1,913	11,469	(2,000)	7,145	1,506	1,655
of which high risk	340	6,767	(1,333)	4,725	672	782
Transport and communication	1,449	7,456	(1,239)	4,336	1,107	437
of which high risk	207	1,571	(245)	894	127	9
Hotels and restaurants	28	4,456	(574)	1,976	199	86
of which high risk	28	4,456	(574)	1,976	199	86
Financial and insurance services	588	767	-	-	224	20
Real estate and housing	3,197	16,557	(2,049)	6,916	519	479
of which high risk	1,933	13,170	(2,049)	6,916	506	465
Services	498	4,454	(995)	2,656	546	340
of which high risk	210	3,813	(976)	2,564	394	135
Public administration	699	34	-	-	-	-
Education, health and art	277	3,486	(207)	797	185	42
of which high risk	60	570	(120)	524	81	3
Households	18,716	49,732	(3,483)	19,232	4,592	(4,512)
Other	5	21	-	-	(4)	17
Total	**35,076**	**139,826**	**(13,708)**	**51,359**	**12,705**	**3,113**

In case of FLI macro shifts and PiT parameters the Bank was given a choice either to use 2020 macro values for year 2021 for FLI or adjust PiT parameters to a crisis period and use standard FLI. The Bank decided to opt for the second option and adjusted PiT parameters to post-crisis period in years 2009-2011.

The following tables present sensitivity analyses taking into consideration only changes due to the different values of PDs according to the baseline, upside and downside FLI scenarios. Covid-19 SICR overlays are ignored. Sensitivities of these scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the “Incorporation of forward-looking information” section above). In tables below the Bank is showing impacts of different scenarios on exposure and ECL, where each particular scenario has 100% weight.

Total exposure in Stage 2 decreases by EUR 56.7 million before the PiT adjustment and ECL decreases by EUR 20.3 million (values shown in tables refer to PiT risk parameters before the adjustment to the post-crisis period). In case of baseline and upside scenarios total exposure in Stage 2 decreases by EUR 150.9 million and EUR 276.7 million respectively and ECL decreases by EUR 21.5 million and EUR 35.5 million respectively. In case of downside scenario total exposure in Stage 2 increases by EUR 414.3 million and ECL increases by EUR 30.3 million.

Year to year changes are caused by introduction of FLI in Corporate and Real estate segments.

Sensitivity analyses – Different probabilities of default (PD)

Impact of different scenarios on credit risk exposure by industry

	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
EUR ths.	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021								
Agriculture and forestry	8,307	(8,307)	4,939	(4,939)	2,912	(2,912)	(1,720)	1,720
Mining	-	-	-	-	-	-	-	-
of which high risk	-	-	-	-	-	-	-	-
Manufacturing	13,720	(13,720)	33,650	(33,650)	7,672	(7,672)	(74,392)	74,392
of which high risk	562	(562)	487	(487)	87	(87)	-	-
Energy and water supply	39	(39)	1,125	(1,125)	1,125	(1,125)	(16,988)	16,988
Construction	5,357	(5,357)	38,922	(38,922)	15,102	(15,102)	(21,933)	21,933
Trade	12,141	(12,141)	48,829	(48,829)	43,158	(43,158)	(14,651)	14,651
of which high risk	1,963	(1,963)	1,738	(1,738)	882	(882)	(1,234)	1,234
Transport and communication	2,480	(2,480)	2,914	(2,914)	2,257	(2,257)	(18,662)	18,662
of which high risk	(75)	75	53	(53)	53	(53)	-	-
Hotels and restaurants	1,184	(1,184)	7,906	(7,906)	888	(888)	(1,117)	1,117
of which high risk	1,184	(1,184)	7,906	(7,906)	888	(888)	(1,117)	1,117
Financial and insurance services	(27)	27	24,262	(24,262)	22,675	(22,675)	(7,522)	7,522
Real estate and housing	2,038	(2,038)	110,805	(110,805)	53,365	(53,365)	(255,096)	255,096
of which high risk	2,254	(2,254)	105,090	(105,090)	48,340	(48,340)	(127,611)	127,611
Services	821	(821)	910	(910)	576	(576)	(768)	768
of which high risk	696	(696)	732	(732)	530	(530)	(636)	636
Public administration	-	-	-	-	-	-	-	-
Education, health and art	665	(665)	1,310	(1,310)	410	(410)	(706)	706
of which high risk	374	(374)	1,154	(1,154)	382	(382)	(207)	207
Households	9,992	(9,992)	1,169	(1,169)	775	(775)	(727)	727
Other	-	-	-	-	-	-	-	-
Total	**56,717**	**(56,717)**	**276,740**	**(276,740)**	**150,915**	**(150,915)**	**(414,282)**	**414,282**

EUR ths.	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020								
Agriculture and forestry	16,275	(16,275)	683	(683)	127	(127)	(290)	290
Mining	166	(166)	-	-	-	-	-	-
Manufacturing	23,801	(23,801)	300	(300)	139	(139)	(102)	102
of which high risk	9,881	(9,881)	107	(107)	69	(69)	(33)	33
Energy and water supply	313	(313)	-	-	-	-	-	-
Construction	9,699	(9,699)	277	(277)	238	(238)	(230)	230
Trade	27,100	(27,100)	1,010	(1,010)	488	(488)	(667)	667
of which high risk	13,796	(13,796)	202	(202)	82	(82)	(194)	194
Transport and communication	6,085	(6,085)	247	(247)	110	(110)	(151)	151
of which high risk	124	(124)	-	-	-	-	(41)	41
Hotels and restaurants	1,154	(1,154)	39	(39)	38	(38)	(30)	30
of which high risk	1,154	(1,154)	39	(39)	38	(38)	(30)	30
Financial and insurance services	341	(341)	4	(4)	4	(4)	-	-
Real estate and housing	14,789	(14,789)	111	(111)	-	-	-	-
of which high risk	14,680	(14,680)	111	(111)	-	-	-	-
Services	3,969	(3,969)	173	(173)	106	(106)	(140)	140
of which high risk	1,640	(1,640)	87	(87)	76	(76)	(98)	98
Public administration	-	-	-	-	-	-	-	-
Education, health and art	386	(386)	70	(70)	30	(30)	(16)	16
of which high risk	106	(106)	70	(70)	30	(30)	-	-
Households	(1,139)	1,139	5,608	(5,608)	3,486	(3,486)	(3,607)	3,607
Other	151	(151)	-	-	-	-	(50)	50
Total	**103,090**	**(103,090)**	**8,522**	**(8,522)**	**4,766**	**(4,766)**	**(5,283)**	**5,283**

Impact of different scenarios on credit loss allowances by industry

	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
EUR ths.	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021								
Agriculture and forestry	387	1,460	522	1,141	170	628	(400)	(337)
Mining	12	(1)	54	1	33	-	(52)	(1)
of which high risk	-	-	-	-	-	-	-	-
Manufacturing	1,375	1,446	2,712	1,818	1,453	858	(1,400)	(2,077)
of which high risk	11	35	15	37	6	10	(15)	(13)
Energy and water supply	266	206	823	3,743	475	2,534	(580)	(4,089)
Construction	537	478	859	1,679	419	952	(621)	(1,170)
Trade	850	803	1,051	3,308	96	2,729	(913)	(1,413)
of which high risk	248	190	294	274	85	181	(251)	(149)
Transport and communication	539	303	915	613	440	435	(732)	(299)
of which high risk	41	(12)	40	4	15	3	(30)	(1)
Hotels and restaurants	(53)	276	(19)	926	49	428	(79)	(636)
of which high risk	(53)	276	(19)	926	49	428	(79)	(636)
Financial and insurance services	147	(6)	(25)	1,809	(273)	1,603	(85)	(1,181)
Real estate and housing	484	454	4,389	5,438	2,753	3,765	(303)	(10,750)
of which high risk	465	488	2,904	4,338	1,739	2,991	(898)	(6,116)
Services	398	140	417	293	138	171	(317)	(184)
of which high risk	192	170	214	267	59	161	(172)	(157)
Public administration	-	-	-	-	-	-	-	-
Education, health and art	105	85	123	476	57	269	(42)	(408)
of which high risk	55	67	72	184	35	78	(43)	(51)
Households	8,436	1,146	1,836	626	1,006	358	(1,688)	(507)
Other	2	-	-	-	-	-	-	-
Total	**13,485**	**6,789**	**13,656**	**21,870**	**6,815**	**14,732**	**(7,213)**	**(23,051)**

	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
EUR ths.	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020								
Agriculture and forestry	462	2,104	1	73	5	21	(18)	(30)
Mining	(1)	11	-	-	-	-	-	(1)
Manufacturing	2,071	1,331	22	29	15	12	(36)	(16)
of which high risk	1,255	416	13	4	7	3	(17)	(2)
Energy and water supply	428	192	1	2	1	1	(1)	(2)
Construction	871	911	27	55	10	35	(36)	(50)
Trade	1,506	1,655	39	66	22	35	(40)	(67)
of which high risk	672	782	16	10	10	4	(18)	(10)
Transport and communication	1,107	437	21	15	11	7	(26)	(13)
of which high risk	127	9	2	-	1	-	(1)	-
Hotels and restaurants	199	86	10	5	4	5	(13)	(2)
of which high risk	199	86	10	5	4	5	(13)	(2)
Financial and insurance services	224	20	1	1	1	1	(1)	(1)
Real estate and housing	519	479	6	17	6	-	(13)	(1)
of which high risk	506	465	5	16	6	-	(11)	-
Services	546	340	19	18	10	8	(16)	(23)
of which high risk	394	135	13	3	6	2	(8)	(9)
Public administration	-	-	-	-	-	-	-	-
Education, health and art	185	42	7	4	4	3	(9)	(3)
of which high risk	81	3	1	2	-	1	(3)	-
Households	4,592	(4,512)	2,665	1,525	1,482	897	(2,978)	(1,511)
Other	(4)	17	-	1	-	1	1	(2)
Total	**12,705**	**3,113**	**2,819**	**1,811**	**1,571**	**1,026**	**(3,186)**	**(1,722)**

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the Bank's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. A borrower is in financial difficulties if any of the following conditions are met:

- the customer is more than 30 days past due on any account in the past 3 months;
- the customer would be more than 30 days past due on any account without receiving forbearance;
- the customer is in default;
- the customer would default without receiving forbearance.

Additional criteria for non-retail segment:

- specific early warning signals for this customer were identified in the last 3 months;
- customer has deteriorated financial figures, which led to decline of the rating grade;
- customer has increased probability of default.

Forborne exposure is assessed at account level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.
Contractual modification means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution;
- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- activation of embedded forbearance clause of the contract;
- waiver of a material breach of a financial covenant.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.
Forbearance statuses are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Bank.

Default definition
The Bank applies the definition of default on client level. If a client defaults on any of its credit risk exposure then the client rating must be set to “R” and all on- and off balance exposure including equity products is considered as defaulted.

Default is recognized when one or both of the following incidents occur:

- the obligor is past due 90 consecutive days with any material credit obligation to the Bank, the parent undertaking or any of its subsidiaries in full; or
- the obligor is considered unlikely to pay (UTP) its credit obligation to the Bank, the parent undertaking or any of its subsidiaries in full without realisation of the collateral.

In the Bank the default status triggers the credit-impairment and the Stage 3 classification under IFRS9. In addition the Bank considers all non-performing exposures as defaulted.

Client is classified as defaulted due following 5 reasons, which are linked either to unlikely to pay (UTP) or days past due:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 –forbearance
- E4 – Credit loss
- E5 – bankruptcy

Credit Risk Model department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils EBA criteria and influences estimation of LLP, SRC, etc.

Changes in the treatment of forbearance and default due to the Covid-19 pandemic are described in the previous chapter ‘Covid-19’.

Credit risk exposure, forbearance exposure and credit loss allowances

EUR ths.	Loans and advances	Debt securities	Other positions	Off-balance	Total credit risk exposure
31.12.2021					
Gross exposure	16,289,668	3,920,807	73,986	2,284,714	22,569,174
thereof gross forborne exposure	455,255	-	121	44,743	500,119
Performing exposure	15,994,547	3,920,807	73,986	2,283,177	22,272,516
thereof performing forborne exposure	357,990	-	120	44,488	402,599
Credit loss allowances for performing exposure	171,963	1,236	-	25,056	198,255
thereof credit loss allowances for performing forborne exposure	15,896	-	-	772	16,668
Non-performing exposure	295,121	-	-	1,537	296,658
thereof non-performing forborne exposure	97,264	-	-	256	97,520
Credit loss allowances for non-performing exposure	170,152	-	-	728	170,880
thereof credit loss allowances for non-performing forborne exposure	48,369	-	-	155	48,524

EUR ths.	Loans and advances	Debt securities	Other positions	Off-balance	Total credit risk exposure
31.12.2020					
Gross exposure	15,293,010	3,687,990	105,362	1,961,286	21,047,647
thereof gross forborne exposure	291,581	-	80	89,141	380,803
Performing exposure	14,928,827	3,687,990	105,361	1,914,639	20,636,816
thereof performing forborne exposure	176,345	-	80	43,812	220,238
Credit loss allowances for performing exposure	(160,745)	(546)	-	(16,296)	(177,587)
thereof credit loss allowances for performing forborne exposure	(9,975)	-	-	(658)	(10,633)
Non-performing exposure	364,183	-	1	46,647	410,831
thereof non-performing forborne exposure	115,236	-	-	45,330	160,565
Credit loss allowances for non-performing exposure	(230,285)	-	-	(820)	(231,105)
thereof credit loss allowances for non-performing forborne exposure	(82,550)	-	-	(156)	(82,706)

Loans and advances also include lease, trade and other receivables.

Collateral

Recognition of credit collateral

Collateral Management is integrated in Underwriting Processes department of Credit Risk divisions. The Bank's Collateral Management Policy defines, among other things, uniform valuation standards for credit collateral. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All collateral types acceptable within the Bank are contained in the Collateral Catalogue. Permitted collateral is defined in accordance with applicable national legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Bank's Collateral Catalogue broken down by collateral type and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of collateral or a specific collateral asset is accepted for credit risk mitigation is decided by Corporate Credit Risk Management after determining if the applicable regulatory requirements are met. Credit underwriting monitors adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available.

Main types of credit collateral

The following types of credit collateral are accepted:

- real estate: residential and commercial real estate;
- financial collateral: securities, cash deposits and life insurance policies;
- guarantees: given by sovereigns, public sector entities, financial institutes, companies and private individuals. All guarantors must have a minimum credit rating, which is reviewed annually;
- movables: equipment, investment goods, machinery and motor vehicles;
- claims and rights: trade account receivables, leasehold rights and shares in a company's capital.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and their IT-supported technical application is performed by Collateral Management and by authorised staff in each country with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction. Therefore, imputed excess collateral values are not possible. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined by the Bank. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation discounts are adjusted regularly – at least once a year – to reflect current recoveries.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. All guarantee liabilities and loans of a corporate guarantee provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, the Bank does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books is commercial land and buildings. In addition, residential real estate properties and transport vehicles are taken into the Bank's possession.

Credit risk exposure by financial instrument and collaterals

31.12.2021 EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral	IFRS 9 impairment relevant		
			Guarantees	Real estate	Other			Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - other demand deposits	9,658	-	-	-	-	-	9,658	9,658	-	-
Financial assets at amortised cost	19,828,117	148,694	242,473	8,675,983	220,400	9,138,855	10,689,261	19,188,322	355,861	283,935
Loans and advances to banks	50,025	-	35	-	-	35	49,990	49,980	46	-
Loans and advances to customers	15,865,198	148,694	222,304	8,675,983	220,400	9,118,686	6,746,511	15,225,448	355,815	283,935
of which: Lending for house purchase	9,361,376	122,660	-	7,660,995	22	7,661,017	1,700,359	9,119,527	101,844	140,005
of which: Credit for consumption	1,422,176	158	-	196	16	212	1,421,964	1,309,920	50,836	61,420
of which: Corporate loans and others	5,081,646	25,876	222,304	1,014,792	220,362	1,457,457	3,624,188	4,796,001	203,135	82,510
Debt securities	3,912,894	-	20,134	-	-	20,134	3,892,760	3,912,894	-	-
Finance lease receivables	238,772	3,059	-	-	163,196	163,196	75,574	226,139	6,305	6,326
Trade and other receivables	135,676	-	-	-	-	-	135,675	119,940	10,875	4,860
Non-trading financial assets at fair value through profit or loss - 'Debt securities	7,913	-	-	-	-	-	7,913	-	-	-
Financial assets - held for trading	47,874	-	-	-	-	-	47,874	-	-	-
Positive fair value of derivatives	16,454	-	-	-	-	-	16,454	-	-	-
Total credit risk exposure on-balance	**20,284,464**	**151,753**	**242,473**	**8,675,983**	**383,596**	**9,302,051**	**10,982,409**	**19,544,059**	**373,041**	**295,121**
Off-balance	2,284,714	144	-	83,440	79,220	162,660	2,122,053	1,732,302	-	1,483
Total credit risk exposure	**22,569,178**	**151,897**	**242,473**	**8,759,423**	**462,816**	**9,464,711**	**13,104,462**	**21,276,361**	**373,041**	**296,604**

31.12.2020 EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral	IFRS 9 impairment relevant		
			Guarantees	Real estate	Other			Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - other demand deposits	11,023	-	-	-	-	-	11,023	11,023	-	-
Financial assets at amortised cost	18,639,930	139,824	158,225	8,411,398	247,271	8,816,895	9,823,033	18,024,551	264,431	350,948
Loans and advances to banks	49	-	41	-	-	41	8	-	49	-
Loans and advances to customers	14,959,631	139,824	140,173	8,411,398	247,271	8,798,843	6,160,787	14,344,301	264,382	350,948
of which: Lending for house purchase	8,618,372	120,024	-	7,519,339	23	7,519,362	1,099,009	8,400,705	78,659	139,008
'of which: Credit for consumption	1,587,560	100	-	114	56	171	1,587,389	1,456,490	48,831	82,239
'of which: Corporate loans and others	4,753,699	19,700	140,173	891,945	247,192	1,279,310	3,474,389	4,487,106	136,892	129,701
Debt securities	3,680,250	-	18,011	-	-	18,011	3,662,238	3,680,250	-	-
Finance lease receivables	246,820	5,100	-	-	171,736	171,736	75,084	228,718	9,266	8,837
Trade and other receivables	86,511	-	-	-	-	-	86,511	75,434	6,677	4,399
Non-trading financial assets at fair value through profit or loss - 'Debt securities	7,740	-	-	-	-	-	7,740	-	-	-
Financial assets - held for trading	59,994	-	-	-	-	-	59,994	-	-	-
Positive fair value of derivatives	34,345	-	-	-	-	-	34,345	-	-	-
Total credit risk exposure on-balance	**19,086,363**	**144,924**	**158,225**	**8,411,398**	**419,007**	**8,988,631**	**10,097,730**	**18,339,726**	**280,374**	**364,184**
Off-balance	1,961,286	71	42,325	76,939	31,238	150,502	1,810,784	1,540,183	-	46,580
Total credit risk exposure	**21,047,649**	**144,995**	**200,550**	**8,488,337**	**450,245**	**9,139,133**	**11,908,514**	**19,879,909**	**280,374**	**410,764**

The collateral attributable to exposures that are credit-impaired at 31 December 2021 amounts to EUR 151.9 million (2020: EUR 145 million).

Concentration

The following table presents a summary of the Group's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government and similar exposures:

EUR ths.	Amount		Portion of total assets %	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Cash and cash balances	1,354,133	2,483,999	6.53%	10.73%
Loans and receivables to customers	514,715	562,736	2.48%	2.43%
Securities portfolio	3,051,137	3,264,708	14.71%	14.11%
Total	**4,919,985**	**6,311,443**	**23.72%**	**27.27%**

The following table presents a breakdown of state debt securities held by the Group per portfolio and type of security:

EUR ths.	31.12.2020	31.12.2021
Financial assets at amortised cost	3,051,137	3,264,708
State bonds denominated in EUR	3,022,996	3,194,283
State bonds denominated in USD	28,141	70,425
Total	**3,051,137**	**3,264,708**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with stable outlook (since 27 September 2019).

26. Market risk

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived from them.
These market value changes might appear in the profit and loss account, in the statement of comprehensive income or in hidden reserves. The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

Methods and instruments employed

All positions of the bank, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model prices, and respective profit or loss is calculated. The main tools to measure market risk exposure are sensitivity analysis and value-at-risk (VAR) which is complemented by back testing and stress testing programme.

Sensitivity and VAR are applied to Trading Book positions as well as to Investment portfolios of the Banking Book. The overall interest rate risk of the bank (IRRBB) is quantified by Economic Value of Equity (change in balance sheet value due to shift in the yield curves) and ICAAP IRRBB capital charge (one year VAR at 99.92% confidence level based on historical observed shifts in yield curves). The limits are imposed to both of the measures. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions. The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VAR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the VAR for the current position of the Bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at the Bank. These events include mainly market movements of low probability.

In addition to standard day-to-day risk measurement and monitoring, comprehensive stress testing procedures are established. Neither traditional risk measurement using sensitivity indicators, nor value-at-risk model is capable of capturing extreme events that occur in the market from time to time. Since the value-at-risk model only estimates the potential maximum loss with 99% probability, potential stressful events that possess less than 1% probability will not be embraced in the value-at-risk figure.

In stress testing, scenarios of potential extreme behavior of the most significant market variables are developed. These are then applied to the current market values and potential profit or loss is calculated for current positions. These analyses are made available to the management board within the scope of the regular market risk reporting.

Methods and instruments of risk mitigation

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VAR, sensitivity, and stop-loss limits. Limits are structured according to individual portfolios (separate limits are defined for derivative trades). Limits are reviewed and proposed usually at year-end by SRM in cooperation with Treasury and BSM for the upcoming business year. Reallocations are also possible during the current year. The new limits proposal or change in approved limits is subject to approval by ALCO committee. Monitoring is performed daily by SRM. Each limit violation must be reported and explained with ALCO being the supreme decision maker on further action.
Risk reporting is done daily for relevant management and monthly for ALCO.

Sensitivity, VAR and stop-loss limits are applied to Trading Book positions as well as to Investment portfolios of the Banking Book. The overall interest rate risk of the bank (entire balance sheet) is quantified by Economic Value of Equity (change in balance sheet value due to shift in the yield curves) and ICAAP IRRBB capital charge (one year VAR at 99.92% confidence level based on historical observed shifts in yield curves). The limits are imposed to both of the measures.

Analysis of market risk

The following tables summarize the risk measures – Value at Risk of banking book and trading book:

Value at Risk of banking book and trading book

EUR ths.	31.12.2020	31.12.2021
Banking book - ALM portfolio	12,948	11,700
Banking book - Corporate portfolio	1,012	718
Banking book - ALCO portfolio	153	181
Trading book	10	7

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

Interest rate risk in the banking book (IRRBB)
Interest rate risk is the risk of an adverse change in the value of interest rate sensitive balance sheet positions caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities, interest rate behavior or of the timing of interest rate adjustments.
Limits and thresholds are implemented for both aspects of the IRRBB, the change in economic value (EVE) as well as the change in earnings. Positions without contractually defined maturity or repricing structures, such as demand deposits or overdrafts are modelled accordingly. For positions where the customer has the right to prepay his debt prepayment models are applied.

Economic value of equity (EVE)

EUR ths.	31.12.2020	31.12.2021
SLSP		
parallel down scenario	10,330	(35,990)
parallel up scenario	74,234	42,675
flattener scenario	(72,909)	(154,497)
steepener scenario	98,679	109,694
short down scenario	15,558	50,369
short up scenario	(78,886)	(100,661)

The positive numbers mean an increase in economic value due to the shift in yield curves, i.e. profit, the negative numbers vice versa. The biggest risk for the bank arises from non-parallel shift in the yield curves – the flattener scenario, under which the short end of the yield curves goes up while the long end declines.

Exchange rate risk
Risk from open foreign exchange positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis.
Basis principle behind managing FX risk is to transfer positions stemming from banking book activities to Erste Holding. However, in reasonable cases, banking book is permitted to hold strategic FX positions. This would typically be opened in order to hedge existing FX positions that are not explicitly seen on the balance sheet.

Strategic positions are subject to ALCO approval and shall be managed on a daily basis by Balance Sheet Management. They are covered by sufficient limit structure and reporting on VAR, stop-loss limit and are disclosed as the gain or loss (responsibility of Strategic Risk Management).

Credit spread risk
Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. The Bank is exposed to credit spread risk with respect to its bond portfolio accounted at fair value. There is no bonds position in the trading book. The bonds position in fair value portfolio in the banking book is small (EUR 6 million). Quantifying the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the ICAAP calculations to determine the capital consumption of the banking book portfolio.

Hedging
Banking book market risk management consists of optimising the Bank's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging refers to an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. IFRS hedge accounting is applied, if possible, to avoid accounting mismatches due to hedging activity. Within the scope of IFRS-compliant hedge accounting, fair value hedges and cash flow hedges are used. In addition, the fair value option is used for hedging the market risk from the economic perspective. The hedging within the Bank concerns hedging of interest rate risk.

27. Liquidity risk

The liquidity risk is defined in the Bank as the inability to meet the Bank's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Banks will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Bank. Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.

Liquidity risk is within the authority of ALCO. The Local Operating Liquidity Committee (L-OLC) is responsible for operational managing and analysing of the liquidity situation of the Bank.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

Liquidity strategy

The goal of the Bank's Funding Strategy is to cover the gap coming from the core business and also Minimum Requirement for Own Funds and Eligible Liabilities (MREL) efficiently, i.e. reaching an optimal liquidity status and MREL compliance in terms of structure and costs versus risk tolerance.
In 2021, customer deposits remained the primary source of funding for the Bank. The growth in loan volume was lower than inflows of customer deposits, the excess liquidity was mainly placed with central bank. The Bank comfortably fulfils all regulatory and internal liquidity limits and keeps sufficient liquidity buffer composed mainly of government securities.

With regards its own issuance, the Bank issued EUR 312 million in bonds in 2021 (2020: EUR 993 million including EUR 500 million of retained covered bond) out of which EUR 230 million as preferred senior bonds and EUR 80 million as additional tier 1 capital.

The Bank's total TLTRO participation in 2021 was increased to EUR 2.75 billion (2020: EUR 1.5 billion).

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period (SPA) on weekly basis. This analysis determines the maximum period during which the Bank can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its counterbalancing capacity consist mainly of pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows.
Liquidity ratios defined by the regulator (LCR – Liquidity Coverage Ratio, NSFR – Net Stable Funding Ration and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO.
Funding concentration risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Strategic Risk Management provides the reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the Bank to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined within the Bank and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 1 months
- severe market crisis – over 6 months
- sever combined name and market crisis – over 3 months
- mild name crisis – over 3 months
- mild market crisis – over 12 months
- mild combined name and market crisis – over 6 months

For each scenario also the limit for liquidity surplus over given horizon limit is applied. The limit is set at EUR 0 million with warning level in range between EUR 0 and 200 million.

The minimum amount of highly liquid assets (cash and average balance in central bank less minimum reserve requirement) must be over EUR 2.5 billion.

The Bank daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks, as well as unencumbered central bank eligible assets and amount of retained covered bonds which could be pledged in central bank. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation.
Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR and NFSR.

Funding Concentrations management - sum of top 10 biggest clients of each monitored group of wholesale funding providers (public, financial, credit institutions and corporates) may not account for more than EUR 500 million.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

In the Group, the liquidity risk is analysed by the following methods.

Liquidity coverage ratio
The Bank uses the regulatory liquidity coverage ratio for internal monitoring and steering of the liquidity position as well. In order to keep the LCR above both limits, the regulatory limit and the internal limit, the Bank closely monitors its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR as of 31 December 2020 and 31 December 2021:

Liquidity coverage ratio

EUR ths.	31.12.2020	31.12.2021
Liquidity buffer	4,294,441	4,327,590
Net liquidity outflow	2,010,503	2,282,137
Liquidity coverage ratio	213.60%	189.63%

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserves at the central banks as well as unencumbered central bank eligible assets, amount of retained covered bonds which could be pledged in ECB and other liquid securities, including impacts from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation.

Term structure of counterbalancing capacity

EUR mil.	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
31.12.2021					
Cash, excess reserve	2,753	-	-	-	-
Liquid assets	1,487	-	-	-	-
Other central bank eligible assets	-	1,176	(2)	(4)	(7)
Thereof retained covered bonds	-	1,032	-	-	-
Thereof credit claims	-	144	(2)	(4)	(7)
Counterbalancing capacity	**4,240**	**1,176**	**(2)**	**(4)**	**(7)**

EUR mil.	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
31.12.2020					
Cash, excess reserve	1,552	-	-	-	-
Liquid assets	2,656	(9)	(117)	(5)	(20)
Other central bank eligible assets	-	914	(2)	(3)	(19)
Thereof retained covered bonds	-	806	-	-	-
Thereof credit claims	-	108	(2)	(3)	(19)
Counterbalancing capacity	**4,208**	**905**	**(119)**	**(8)**	**(39)**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts. In a crisis situation, adverse market movements can decrease this amount. Negative figures are maturing positions of the counterbalancing capacity. Positive figures after one week are positions not immediately available as counterbalancing capacity.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities were as follows:

Financial liabilities

EUR ths.	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
31.12.2021						
Non-derivative liabilities	**20,813,040**	**20,824,684**	**15,482,302**	**787,356**	**4,215,153**	**339,873**
Deposits by banks	2,893,347	2,879,226	8,803	26,102	2,800,463	43,858
Customer deposits	15,972,763	15,972,915	15,473,438	471,251	28,226	-
Debt securities in issue	1,865,002	1,889,577	61	260,424	1,349,368	279,724
Subordinated liabilities	81,928	82,966	-	29,579	37,096	16,291
Derivative liabilities	**77,975**	**31,427**	**3,591**	**12,208**	**16,062**	**(434)**
Derivatives liabilities with gross Cash Flow (net)	77,975	31,427	3,591	12,208	16,062	(434)
Outflows	-	296,143	73,552	114,215	98,751	9,625
Inflows	-	(264,716)	(69,961)	(102,007)	(82,689)	(10,059)
Contingent liabilities	**2,284,714**	**2,284,714**	**2,284,714**	**-**	**-**	**-**
Financial guarantees	10,801	10,801	10,801	-	-	-
Commitments	2,273,913	2,273,913	2,273,913	-	-	-
Other financial liabilities	56,576	56,576	37,233	5,454	13,232	657
Total	**23,232,305**	**23,197,401**	**17,807,840**	**805,018**	**4,244,447**	**340,096**

EUR ths.	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
31.12.2020						
Non-derivative liabilities	**18,631,001**	**18,683,798**	**14,100,487**	**1,067,313**	**2,848,124**	**667,874**
Deposits by banks	1,710,255	1,723,265	4,397	28,305	1,644,829	45,734
Customer deposits	14,869,015	14,869,231	14,095,983	735,212	38,036	-
Debt securities in issue	1,957,349	1,994,511	107	289,657	1,131,064	573,683
Subordinated liabilities	94,382	96,791	-	14,139	34,195	48,457
Derivative liabilities	**104,897**	**37,683**	**3,076**	**5,414**	**29,269**	**(76)**
Derivatives liabilities with gross Cash Flow (net)	104,897	37,683	3,076	5,414	29,269	(76)
Outflows	-	293,177	82,148	67,801	129,140	14,088
Inflows	-	(255,494)	(79,072)	(62,387)	(99,871)	(14,164)
Contingent liabilities	**1,961,286**	**1,961,286**	**1,961,286**	**-**	**-**	**-**
Financial guarantees	9,198	9,198	9,198	-	-	-
Commitments	1,952,088	1,952,088	1,952,088	-	-	-
Other financial liabilities	43,082	43,082	22,932	5,612	13,847	691
Total	**20,740,266**	**20,725,849**	**16,087,781**	**1,078,339**	**2,891,240**	**668,489**

As of year-end 2021, the currency composition of the non-derivative liabilities consisted mainly by EUR (approximately 99%).

28. Operational risk

In line with Article 4 Section 52 of regulation (EU) 575/2013 (CRR), the Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which are collected across the Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. The Group sources external data from a leading non-profit risk-loss data consortium.

The Group calculates capital requirements for operational risk based on the Advanced Measurement Approach (AMA) that is subject to regulatory approval. AMA is a sophisticated approach for measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. Additionally, the Group received the approval to use insurance contracts for mitigation within the AMA pursuant to Article 323 CRR.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk and control assessments through expert panels. Additional methods include setting of key risk indicators and risk assessments in connection with product approvals, outsourcing assessments and risk return decisions. The results of these assessments and processes are reported to line management along with mitigation measures and thus help to reduce operational risks. In order to ensure early detection of changes in the risk profile that may lead to losses, the Group monitors a number of key risk indicators such as system availability, staff turnover, and customer complaints.

The Group uses a group-wide insurance program that has reduced the cost of meeting the Group's traditional property insurance needs. Freed-up resources made it possible to buy additional insurance for previously uninsured bank-specific risks. This program uses a captive reinsurance entity as a vehicle to share losses within the group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of the Group. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management reports, which describe the recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for the Group.

Main objectives of effective system of operational risk management are:

- set up a bank-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- properly identify major drivers of operational risk
- develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- implement and update of insurance program
- define outsourcing and internal control system principles
- prepare ORCO meetings
- continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- provide quality reporting and documentation

Risk identification

Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and / or severity of loss events.

Risk identification is generally forward-looking. While it is inevitable to use historical loss data, they are supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors are translatable into quantitative measures.

The most significant sources of operational risk in the Group are:

- theft and fraud (both external and internal);
- legal risks;
- conduct risk;
- human processing error;
- data, infrastructure, and system related risks;
- ICT risk, especially cyber crime
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

Internal data

The Group maintains a central database of operational risk events and losses. This is as comprehensive as possible in that it captures all material activities throughout the Group. Data collection is conducted via a web-based application EMUS which was upgraded in 2016 and continuously finetuned every year. This application now provides more user friendly platform to deal with operational risk losses. Currently this system contains more modules which supports whole compliance and operational risk management area (whistleblowing, conflict of interests, trading of employees, regulatory compliance, third party/clients checks evidence, corrective measures for fraud management). Thanks new reporting services possibilities and fully automated reports, EMUS becomes Business Intelligence application which supports our management needs.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the Group. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the Group has an access right. Information on loss amounts, recoveries, date of event and other relevant descriptive information must be provided.

Every event reported in the EMUS application follows the acceptance procedure by expert departments. Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Fraud Prevention, Card Services, Internal Services or Legal Unit. Second stage is a data consistency check and is performed by Operational Risk Management. Events are categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process is covered by Operational Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc.

External data

As severe operational risk events are scarce, and may not have been captured in internal data collection, the Group also includes adequate external event data in its risk identification system. These cover infrequent severe events with relevance to the Group or financial industry. The Group systematically incorporate external data into its risk measurement methodology. External data collection is coordinated with the Erste group efforts on this matter and will be locally conducted by Operational Risk Management.

Scenario analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Group includes such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Compliance and Operational Risk Management departments.

Risk mapping and key risk indicators

The objective of this risk identification technique is to map the level of different operational risks across the Group and to set up a measurable framework known as key risk indicators ('KRI') that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Compliance and Operational Risk Management, with the help of respective senior or third level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the Group. The resulting map will have three dimensions, namely:

- risk category
- business line / product
- functional process level – where applicable, this provides depth for the business line / product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI has the following properties:
- it is easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;

- it is effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

Risk measurement

The Group measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both, frequency of loss and amount of loss, is modelled and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99,9 % and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification process is used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems is used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.
The Group is able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model is validated through comparison to actual experience and appropriate corrections are made. Design of the risk measurement model is within the responsibility of Erste Holding (for more details see the group AMA documentation). Modelling inputs are provided by Operational Risk Management.

Managing operational risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Operational Risk Management has a harmonization role and performs activities of global scope.
In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance
- system of internal controls
- outsourcing
- risk acceptance
- decrease of the extent or disposal of the risky activity

Selection of the approach is the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, the Board of Directors) for approval.

The following sub-sections give an overview of the main activities regarding operational risk management within the Group.

Operational Risk and Compliance Committee is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

Operational Risk Management or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers and other representatives.

System of internal controls

Each unit manager implements a system of internal controls ('ICS') within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc. Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that will be covered by operative controls.

Internal control system shall consist of:

- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself
- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:

- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the Group's ICS in order to determine whether the Group is following enacted policies and procedures. Operational Risk Management issues associated Internal Control System Policy giving detailed information on the system. However, Operational Risk Management does not assume any coordination role in the implementation and execution of ICS by individual managers.

Insurance

In order to mitigate operational risk, the Group engages in a comprehensive insurance program. This covers direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the Group and its subsidiaries. The primary objective of the insurance program is to safeguard the Group against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Operational Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which, inter alia, covers procedures in case of insurance incident.

NON-CURRENT ASSETS AND OTHER INVESTMENTS

29. Property, equipment, investment properties and right of use assets

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the statement of income in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

Type of property and equipment	Useful lives in years
Buildings	30 years
Right-of-use assets - buildings	15- 30 years
Office equipment / other fixed assets	4 - 6 years
Passenger cars	4 years
IT assets (hardware)	4 years
Fixture and fittings	6 - 12 years

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of income under the line item 'Other operating result'.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation or both. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction when the future use is expected to be the same as for investment property are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet in the line item 'Investment properties'.

Rental income is recognised in the statement of income in the line item 'Rental income from investment properties and other operating leases'. Depreciation is presented in the statement of income in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are in the range of 15-30 years. Any impairment losses, as well as their reversals, are recognised under the line item 'Other operating result'.

Impairment

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If any indication of impairment exists or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring the value in use, the 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 risks specific to the asset.

At each reporting date, an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the bank estimates the asset's or the CGU's recoverable amount. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the statement of income under the line item 'Other operating result'.

Acquisition and production costs

Own property, equipment, investment properties and right of use assets

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Right-of-use assets - Land and buildings	Property and equipment total	Investment properties
Balance as at 01.01.2020	**252,126**	**56,436**	**49,099**	**816**	**23,292**	**381,769**	**6,498**
Additions	5,562	2,419	7,488	-	9,191	24,660	-
Disposals	(19,721)	(5,921)	(142)	(816)	(1,416)	(28,016)	(17)
Reclassification	(113)	-	-	-	-	(113)	113
Balance as at 31.12.2020	**237,854**	**52,934**	**56,445**	**-**	**31,067**	**378,300**	**6,594**
Additions	6,999	3,179	3,546	-	6,632	20,356	-
Disposals	(3,966)	(2,476)	(1,041)	-	(1,026)	(8,509)	-
Reclassification	430	-	-	-	-	430	(430)
Balance as at 31.12.2021	**241,317**	**53,637**	**58,950**	**-**	**36,673**	**390,577**	**6,164**

Accumulated depreciation

Own property, equipment, investment properties and right of use assets

EUR ths.	Land and buildings	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Right-of-use assets - Land and buildings	Property and equipment total	Investment properties
Balance as at 01.01.2020	**(140,268)**	**(47,393)**	**(32,575)**	**(172)**	**(5,264)**	**(225,672)**	**(4,670)**
Amortisation and depreciation	(9,932)	(3,428)	(5,085)	(14)	(6,706)	(25,165)	(215)
Disposals	15,621	5,791	142	186	1,377	23,117	12
Impairment	(3,073)	-	-	-	-	(3,073)	-
Reversal of impairment	2,601	-	-	-	-	2,601	224
Reclassification	47	-	-	-	-	47	(47)
Balance as at 31.12.2020	**(135,004)**	**(45,030)**	**(37,518)**	**-**	**(10,593)**	**(228,145)**	**(4,696)**
Amortisation and depreciation	(9,970)	(2,923)	(5,700)	-	(7,107)	(25,700)	(206)
Disposals	3,165	2,402	1,026	-	1,027	7,620	-
Impairment	(1,194)	-	-	-	-	(1,194)	(1)
Reversal of impairment	2,610	-	-	-	-	2,610	42
Reclassification	(214)	-	-	-	-	(214)	214
Balance as at 31.12.2021	**(140,607)**	**(45,551)**	**(42,192)**	**-**	**(16,673)**	**(245,023)**	**(4,647)**

Carrying amounts

Own property, equipment, investment properties and right of use assets

EUR ths.	Land and buildings (used by the Group)	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Right-of-use assets - Land and buildings	Property and equipment total	Investment properties
As of 31.12.2020	**102,850**	**7,904**	**18,927**	**-**	**20,474**	**150,155**	**1,898**
As of 31.12.2021	**100,710**	**8,086**	**16,758**	**-**	**20,000**	**145,554**	**1,517**

In 2021, land and buildings were impaired to the amount of EUR 10.6 million (2020: EUR 12.1 million).

Cost of property and equipment, which are fully depreciated but still used by the Group as at 31 December 2021 amounted
EUR 71.5 million (2020: EUR 67.4 million) and includes various types of tangible fixed assets.

As at 31 December 2021 the Group owned property and equipment not yet put in use in the amount of EUR 0.7 million
(2020: EUR 1.4 million).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

30. Intangible assets

The Group's intangible assets other than goodwill include computer software and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.
Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under the line item 'Depreciation and amortisation'.

Type of intangible assets	Useful lives in years
Software	4 - 8 years
Core banking system and related applications	8 years

Impairment of intangible assets

Impairment of intangible assets is based on the same requirements as described in Note 29 Property, equipment, investment properties and right of use assets. It is typical of intangible assets that they do not generate cash inflows that are largely independent of those from other assets. As a result, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs.

Acquisition and production costs

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 01.01.2020	**241,387**	**36,425**	**2,693**	**280,505**
Additions	6,296	-	29	6,325
Disposals	(24)	-	-	(24)
Balance as at 31.12.2020	**247,659**	**36,425**	**2,722**	**286,806**
Additions	7,447	-	-	7,447
Disposals	(159)	-	-	(159)
Balance as at 31.12.2021	**254,947**	**36,425**	**2,722**	**294,094**

Accumulated depreciation

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 01.01.2020	**(219,373)**	**(34,739)**	**(2,638)**	**(256,750)**
Amortisation and depreciation	(9,610)	(1,486)	(26)	(11,122)
Disposals	13	-	-	13
Balance as at 31.12.2020	**(228,970)**	**(36,225)**	**(2,664)**	**(267,859)**
Amortisation and depreciation	(7,277)	(147)	(23)	(7,447)
Disposals	159	-	-	159
Balance as at 31.12.2021	**(236,088)**	**(36,372)**	**(2,687)**	**(275,147)**

Carrying amounts

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
As of 31.12.2020	**18,689**	**200**	**58**	**18,947**
As of 31.12.2021	**18,858**	**53**	**35**	**18,946**

Cost of intangible assets, which are fully depreciated but still used by the Group as at 31 December 2021 amounted EUR 253.7 million (2020: EUR 247.3 million).

As at 31 December 2021 the Group owned intangible assets not yet put in use in the amount of EUR 3.3 million (2020: EUR 3.4 million).

During the year 2021 the Group put in use upgrade of the core banking system, which amounted EUR 6.0 million (2020: EUR 4.1 million).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

31. Other assets

EUR ths.	31.12.2020	31.12.2021
Client settlement	11,642	28,565
Personnel balances	17	193
State budget, social and health insurance, taxes	-	-
Sundry assets	10,079	6,934
Other assets	**21,738**	**35,692**

These items represent balances like:

Item Client settlement represents mainly suspense accounts or money in transit accounts that are not allocated to respective client account due to missing information or due to essence of the transaction. The main part of this items belongs to interbank clearing or open settlement with securities transactions.

Item Personnel balances represents other unsettled transactions – mainly unsettled prepaid expenses.

Item State budget, social and health insurance, taxes consist mainly of withholding tax and VAT tax receivables that will be settled with state budget within next month.

Sundry assets represent other items that do not fall into the above mentioned categories- mainly deferred costs and suspense accounts.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

LEASES

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The Group as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item ‘Finance lease receivables’. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item ‘Other similar income’ under ‘Net interest income’.

Finance leases

The Group leases both movable property and real estate to other parties under finance lease arrangements. For finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

EUR ths.	31.12.2020	31.12.2021
Outstanding lease payments	261,671	253,955
Gross investment	**261,671**	**253,955**
Unrealised financial income	(14,851)	(15,185)
Net investment	**246,820**	**238,770**
Present value of non-guaranteed residual values	-	-
Present value of outstanding lease payments	**246,820**	**238,770**

Maturity analysis by residual maturities

EUR ths.	31.12.2020		31.12.2021	
	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	77,769	73,106	72,632	68,448
1-2 years	52,928	49,564	46,436	43,317
2-3 years	39,655	37,299	35,350	33,014
3-4 years	29,141	27,496	27,929	26,164
4-5 years	22,474	21,336	20,842	19,561
> 5 years	39,705	38,019	50,766	48,267
Total	**261,672**	**246,820**	**253,955**	**238,771**

During 2021, the Group recognised interest income on finance lease receivables in the amount of EUR 5.0 million (2020: EUR 5.4 million). Gains/losses from derecognition of finance lease receivables are recognized in line item ‘Gains/losses from derecognition of financial assets measured at amortised cost’.

Finance lease receivables

Gross carrying amounts and credit loss allowances per impairment buckets

EUR ths.	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
General governments	1,327	-	-	-	1,327	(1)	-	-	-	(1)	1,326
Other financial corporations	37	-	-	-	37	-	-	-	-	-	37
Non-financial corporations	205,363	23,298	5,391	-	234,052	(1,239)	(504)	(3,086)	-	(4,829)	229,223
Households	1,967	452	936	-	3,355	(4)	(2)	(500)	-	(506)	2,849
Total	**208,694**	**23,750**	**6,327**	**-**	**238,771**	**(1,244)**	**(506)**	**(3,586)**	**-**	**(5,336)**	**233,435**

EUR ths.	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
General governments	510	-	-	-	510	(1)	-	-	-	(1)	509
Other financial corporations	102	-	-	-	102	-	-	-	-	-	102
Non-financial corporations	146,690	86,430	7,262	-	240,382	(417)	(1,174)	(3,321)	-	(4,912)	235,470
Households	3,013	1,238	1,575	-	5,826	(8)	(11)	(876)	-	(895)	4,931
Total	**150,315**	**87,668**	**8,837**	**-**	**246,820**	**(426)**	**(1,185)**	**(4,197)**	**-**	**(5,808)**	**241,012**

Movement in credit loss allowances

EUR ths	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	(425)	(369)	161	1,313	(1,923)	-	-	-	(1,243)
Stage 2	(1,186)	-	15	(55)	718	-	-	-	(508)
Stage 3	(4,198)	-	214	(51)	450	-	-	-	(3,585)
POCI	-	-	-	-	-	-	-	-	-
Total	**(5,809)**	**(369)**	**390**	**1,207**	**(755)**	**-**	**-**	**-**	**(5,336)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	(253)	(983)	30	96	685	-	-	-	(425)
Stage 2	(6)	-	5	16	(1,201)	-	-	-	(1,186)
Stage 3	(4,307)	-	500	(356)	(34)	-	-	-	(4,197)
POCI	-	-	-	-	-	-	-	-	-
Total	**(4,566)**	**(983)**	**535**	**(244)**	**(550)**	**-**	**-**	**-**	**(5,808)**

In column ‘Additions’ increases of credit loss allowance due to the initial recognition of finance lease receivables during the current reporting period are disclosed. Releases of credit loss allowance following the derecognition of the related finance lease receivables are reported in column ‘Derecognitions’.

In column ‘Transfers between stages’ credit loss allowance net changes due to changes in credit risk that triggered re-assignments of the related finance lease receivables from Stage 1 as of 1 January 2021 or initial recognition date to Stages 2 or 3 as of 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related credit loss allowances are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related credit loss allowances are favourable and presented in line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related credit loss allowance amounts recognized prior to stage re-assignments are presented above in column ‘Other changes in credit risk (net)’.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’.

The column ‘Insignificant modifications (net)’ reflects the effect on credit loss allowance arising from contractual modifications of finance lease receivables which do not trigger their full derecognition. The use of credit loss allowance triggered by full or partial write-offs of finance lease receivables is reported in column ‘Write-offs’.

One significant driver of the credit loss allowance movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages

EUR ths.	31.12.2020	31.12.2021
Transfers between Stage 1 and Stage 2	**83,440**	**48,445**
To Stage 2 from Stage 1	83,278	5,463
To Stage 1 from Stage 2	162	42,982
Transfers between Stage 2 and Stage 3	**541**	**276**
To Stage 3 from Stage 2	470	246
To Stage 2 from Stage 3	71	30
Transfers between Stage 1 and Stage 3	**2,618**	**533**
To Stage 3 from Stage 1	2,552	465
To Stage 1 from Stage 3	66	68

The year-end total gross carrying amount of the finance lease receivables that were initially recognized during the reporting period and not fully de-recognized by 31 December 2021 amounts to EUR 53.5 million (2020: EUR 79.6 million). The gross carrying amounts of the finance lease receivables that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to EUR 0.4 million (2020: EUR 44.4 million).

Leases where the Group is a lessee

Under IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of ‘Property and equipment, right-of-use assets’ or, if they are subleased to third parties, for operating leases as part of ‘Investment properties’ and for finance leases as a ‘Finance lease receivables’.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee’s incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options. Extension and termination options are included in a number of real estate leases across the Group. The use of extension and termination options gives the Group added flexibility in case more suitable premises in terms of costs and/or location are identified or in case it is considered favourable to remain in a location beyond the original lease term.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity’s rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Euribor and is derived from existing bank data. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

The Group primarily rents real estates, branches and parking lots. For details related to right of use assets capitalized in balance sheet arising from leases where the Group is lessee, please see Note 29 Property, equipment, investment properties and right of use assets.

Maturity analysis of lease liabilities based on undiscounted cash flows

EUR ths.	31.12.2020	31.12.2021
< 1 year	6,041	6,163
1-5 years	13,852	13,235
> 5 years	692	658
Total	**20,585**	**20,056**

During 2021, interest expenses on lease liabilities were recognised in the amount of EUR 0.0 million (2020: EUR 0.0 million). In addition expenses in the amount of EUR 0.7 million (2020: EUR 0.8 million) relating to short term leases and expenses amounting to EUR 0.0 million (2020: EUR 0.0 million) relating to leases of low value items, for which the recognition exemption of IFSR 16 applies, were recognised. Total cash outflow for leases in 2021 was EUR 14.9 million (2020: EUR 14.8 million).

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

32. Other liabilities

EUR ths.	31.12.2020	31.12.2021
Client settlement	2,716	25,296
Trade payables	39,004	44,060
Personnel balances and social fund	32,550	35,951
State budget, social and health insurance, taxes	6,314	5,394
Sundry liabilities	-	10
Other liabilities	**80,584**	**110,711**

Item Client settlement represents mainly suspense accounts or money in transit accounts that are not allocated to respective client account due to missing information or due to essence of the transaction.

Item Trade payables represents liabilities to suppliers, including accruals and the main part belongs to unbilled deliveries, that are completed but unbilled as end of month.

Item Personnel balances and social fund mainly represents provisions for personnel costs, wage liabilities to employees and social fund contribution.

Item State budget, social and health insurance, taxes consist mainly of withholding tax and VAT tax payables that will be settled with state budget within next month.

Social fund liability, which is included in the line item ‘Other liabilities‘, developed as follows:

EUR ths.	31.12.2020	31.12.2021
As at 1 January	**2,248**	**4,366**
Additions	4,343	2,843
Withdrawals	(2,226)	(3,293)
As at 31 December	**4,366**	**3,915**

33. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. On the balance sheet, provisions are reported under the line item ‘Provisions’. They include credit risk loss provisions (particularly for financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item ‘Impairment result from financial instruments’. Expenses or income related to other provisions are reported in the statement of income under the line item ‘Other operating result’.

EUR ths.	31.12.2020	31.12.2021
Long-term employee provisions	7,620	7,577
Pending legal issues and tax litigation	5,553	9,602
Loan commitments and financial guarantees given	16,284	24,651
CLA for loan commitments and financial guarantees in Stage 1	3,814	5,358
CLA for loan commitments and financial guarantees in Stage 2	11,657	7,444
Provisions for commitments and financial guarantees in Stage 3	539	572
Provisions for commitments and financial guarantees - POCI	274	11,277
Other provisions	2,379	1,383
Restructuring	1,547	250
Other	832	1,133
Provisions	**31,836**	**43,213**

Defined employee benefit plans

Defined employee benefit plans operated by the Group are for severance and jubilee benefits. From IAS 19 categorisation perspective, severance benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

All employees that are employed are entitled to receive a severance payment if their employment is terminated by the employer or if they retire after defined employment period. The amount to be paid depends on the number of years of service and the employee’s salary at termination of the employment.

Defined benefit plans include jubilee benefits. Jubilee provisions are special one-off payments stipulated in the collective agreement which are dependent on remuneration and duration of service. Eligibility is conditioned on a certain minimum duration of the employment.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, statistical data but also anticipated future rates of increase in salaries.

The liability recognised under a defined benefit plan represents the present value of the defined benefit obligation.

Remeasurements consist of actuarial gains and losses on the defined benefit obligations. Remeasurements of severance defined benefit plans are recognised as accumulated OCI in equity specifically under ‘Remeasurement of defined benefit pension liabilities’ in the statement of changes in equity. The change for the period is reported as

OCI in the statement of comprehensive income in the line 'Remeasurement of defined benefit plans'. Remeasurements of jubilee defined benefit plans are recognised in the statement of income under the line item 'Personnel expenses'.

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Assumptions, estimates and sensitivities used for the defined benefit obligation calculations, as well as related amounts are disclosed in the section 'Long-term employee pension provisions'.

Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. This amount is subsequently amortised to fee income. If no premium is received at contract inception (i.e. the initial transaction price is zero), this is the price that would be paid to transfer the liability in an orderly transaction between market participants. As a result, the fair value of such a financial guarantee and thus the initial measurement is nil. Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium. They are presented on the balance sheet under the line 'Provisions'. The premium received is recognised in the statement of income under the line item 'Fee and commission income' under 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

If the Group is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk is guaranteed. The Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. In the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether the Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures in Note 25 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 34 Contingent liabilities.

Provision for commitments and financial guarantees given

Provisions for commitments and financial guarantees were created to cover losses expected in unused loan commitments, guarantees and letters of credits. The amount of these provisions is estimated with respect to credit risk relating to affected items, as well as time value of money (i.e. current market interest rates used for discounting).

The following table presents movements in the provision for commitments and financial guarantees:

EUR ths.	01.01.2021	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2021
Provisions for commitments and guarantees given						
Stage 1	3,812	29,513	(18,331)	(9,550)	(86)	5,358
Stage 2	11,658	-	(9,215)	(2,250)	7,251	7,444
Stage 3	539	-	(1,643)	526	1,150	572
POCI	275	-	(7,098)	18,100	-	11,277
Total	**16,284**	**29,513**	**(36,287)**	**6,826**	**8,315**	**24,651**

EUR ths.	01.01.2020	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2020
Provisions for commitments and guarantees given						
Stage 1	3,363	30,837	(9,906)	(20,463)	(19)	3,812
Stage 2	1,718	-	(2,548)	3,994	8,494	11,658
Stage 3	957	-	(336)	(203)	121	539
POCI	170	-	(59)	164	-	275
Total	**6,208**	**30,837**	**(12,849)**	**(16,508)**	**8,596**	**16,284**

Movement table of credit loss allowances above represents changes in allowances disclosed based on the reason of the change and is prepared as at the end of the reporting period in comparison to the balance as at 1 January of the relevant reporting period. The table contains allocations, releases of the credit loss allowances and reclassifications between stages. Reconciliation of such movements to income statement line „Impairment result from financial instruments“ is disclosed in note 9 Impairment result from financial instruments.

In column ‘Increases due to origination and acquisition’ increases of credit risk allowances due to the initial recognition of commitments and guarantees given during the current reporting period are disclosed. Releases of credit risk allowances following the derecognition of the related commitments and guarantees given are reported in column ‘Decreases due to derecognition’.

Long-term employee provisions

The Group has a defined employee benefit program under which all employees are entitled to a lump-sum payment upon working anniversaries or retirement. The number of employees under this program is disclosed in the note 8 General administrative expenses.

The amount of long-term employee provisions is calculated using an actuarial model based on the projected unit credit method. The Group performes annual review of the long-term employee benefits provisions using updated data in order to recognize the provisions in appropriate amounts.

The amounts relating to long-term employee provisions recognised on the balance sheet, in the income statement and in the statement of other comprehensive income were as follows:

EUR ths.	Long-term employee provision	Severance payments	Working anniversaries provision	Total
Present value of long-term employee benefit obligations – 01.01.2020	**3,224**	**-**	**2,722**	**5,946**
Service cost	309	-	299	608
Interest cost	-	-	8	8
Payments	(182)	-	(235)	(417)
Actuarial gains/losses recognised in OCI	1,014	-	461	1,475
Experience adjustments	1,014	-	461	1,475
As at 31.12.2020	**4,365**	**-**	**3,255**	**7,620**
Service cost	270	-	267	537
Interest cost	1	-	-	1
Payments	(214)	-	(249)	(463)
Actuarial gains/losses recognised in OCI	74	-	(192)	(118)
Experience adjustments	74	-	(192)	(118)
As at 31.12. 2021	**4,496**	**-**	**3,081**	**7,577**

Actuarial assumptions

The actuarial calculation of long-term employee provision used the following assumptions:

Long-term employee provision	31.12.2020	31.12.2021
Annual discount rate	0.01%	0.17%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3,73 % - 9,65 %	4,28% - 10,95%
Retirement age	64 years	64 years

The actuarial calculation of working anniversaries provision used the following assumptions:

Working anniversary provision	31.12.2020	31.12.2021
Annual discount rate	0.01%	0.17%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3,73 % - 9,65 %	4,28% - 10,95%
Retirement age	64 years	64 years

In the calculation of long-term employee provisions official mortality tables published by the Statistical Office were used.

Sensitivity to key assumption

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at the balance sheet. The analysis is based on relative change in employee turnover by 10%.

EUR ths.	31.12.2020	31.12.2021
Change in the annual employee turnover +10%	4,151	4,271
Change in the annual employee turnover -10%	4,384	4,732

Provisions for pending legal issues and tax litigation and other provisions

Provisions for legal issues relate to legal cases where the Group is sued and which arose from normal banking activities. During the reporting period the Group does not participate in any new passive legal cases.

The item 'Other provisions´ includes provision on contribution to Resolution fund and provision on contribution to Deposit protection fund during the year. When the actual amount of contributions is announced, the payment is accounted for as utilisation of particular provision. Both contributions for the year 2021 were paid in full amount, therefore the Group does not disclose these items as other provisions.

The following table presents development of legal issues and tax litigation as well as other provisions:

EUR ths.	01.01.2021	Additions	Use	Release	31.12.2021
Restructuring provision	1,547	-	(1,220)	(77)	250
Pending legal issues and tax litigation	5,553	4,132	(83)	-	9,602
Other provisions	832	32,070	(14,091)	(17,678)	1,133
Total	**7,932**	**36,202**	**(15,394)**	**(17,755)**	**10,985**

EUR ths.	1.1.2020	Additions	Use	Release	31.12.2020
Restructuring provision	77	1,470	-	-	1,547
Pending legal issues and tax litigation	5,281	523	(2)	(249)	5,553
Other provisions	2	12,523	(5,052)	(6,641)	832
Total	**5,360**	**14,516**	**(5,054)**	**(6,890)**	**7,932**

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

34. Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do involve credit risk and are therefore part of the overall risk of the Bank (see Note 25 Credit risk).

Legal proceedings

The Group is involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of the Group.

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

35. Total equity

in EUR ths.	31.12.2020	31.12.2021
Subscribed capital	212,000	212,000
Additional paid-in capital	-	-
Retained earnings and other reserves	1,280,265	1,456,618
Additional equity instruments	300,000	380,000
Owners of the parent	**1,792,265**	**2,048,618**
Non-controlling interests	29	1,919
Total	**1,792,294**	**2,050,537**

As of 31 December 2021, subscribed capital (also known as registered capital) consists of 212,000 (2020: 212,000) voting shares (ordinary shares). Nominal value of share is EUR 1,000.00. Subscribed capital was fully paid. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

Additional equity instruments

Name	ISIN	Nominal value	Currency	Issue date	Initial fixed rate	Reset rate after the first call date	Coupon payments	First and subsequent calls dates
EUR 80,000,000 Undated Fixed to Fixed Resettable Additional Tier 1 Notes	AT0000A2UFJ4	80,000,000	EUR	30.11.2021	4.49% p.a.	M/S + 457 bps	Semi-annually	30.11.2026 and each Distribution Payment Date following the First Reset Date
SLSP AT1 PNC5 IC 2020 II	SK4000018172	150,000,000	EUR	23.11.2020	4.82% p.a.	M/S + 527 bps	Semi-annually	23.11.2025 and each Distribution Payment Date following the First Reset Date
SLSP AT1 PNC5 IC 2020	SK4000016788	150,000,000	EUR	27.2.2020	4.15% p.a.	M/S + 449 bps	Semi-annually	27.2.2025 and each Distribution Payment Date after 27.2.2025 falling one year after the previous Call Redemption Date

Distributions on own equity instruments

Distributions on own equity instruments are recognised when their payment is confirmed. For dividends on common shares as well as for coupons on Additional Tier 1 instruments the decision is taken by the Annual General Meeting.

The following table presents distribution of individual profits of the Group for the years 2020 (approved) and 2021 (proposed):

Profit distribution	31.12.2020	31.12.2021
Profit for the year (in EUR ths.)	114 633	239 428
Coupon payment for Investment certificate 2015 SLSP AT1 PNC5	-	-
Coupon payment for Investment certificate SLSP AT1 SK4000016788	6 225	6 225
Coupon payment for Investment certificate SLSP AT1 SK4000018172	7 230	7 230
Coupon payment for Investment certificate SLSP AT1 AT0000A2UFJ4	-	3 592
Dividends paid to shareholder from profit for the year	40 471	97 158
Transfer to retained earnings	60 707	125 223
Number of shares with nominal value of EUR 1 000 (in pcs.)	212 000	212 000
Dividend per share (in EUR)	**191**	**458**

Dividends for the year 2020 were paid in March 2021 following the resolution of General Assembly of the Bank dated 24 March 2021.

Additionally the first portion of coupon payment from investment certificate 2015 SLSP AT1 PNC5 II in amount of EUR 3.6 million was paid from retained earnings as at 23 May 2021.

As at 27 August 2021 was paid the first portion of coupon payment from investment certificate 2015 SLSP AT1 PNC5 in amount of EUR 3,1 million. The second portion was paid in amount of EUR 3.6 million as at 23. November 2021.

Legal reserve fund

According to Commercial Code all companies are required to create a legal reserve fund to cover adverse financial conditions in the future. The Group is obliged to contribute to the fund the amount, which is not less than 10% of its annual net profit until the cumulative amount of annual contributions reaches 20% of its share capital. As at 31 December 2021 Legal reserve fund amounted to EUR 79.8 million (2020: EUR 79.8 million) and in both years exceeded the required 20% of the share capital. Legal reserve fund is not available for distribution to the shareholder.

Other funds

Other funds include only Statutory fund created from distributable profits to strengthen the Group's capital base. This fund is not available for distribution to the shareholder. Once the Group's share capital or legal reserve fund is increased, Statutory fund may be terminated and transferred back to the distributable profits with the approval of the Supervisory Board and of the General Assembly. As at 31 December 2021 Statutory fund amounted EUR 39.1 million (2020: EUR 39.1 million).

Fair value reserve

Fair value reserve represents the unrealised revaluation of financial assets measured at fair value through other comprehensive income. This reserve is not available for distribution to the sharefolder. As at 31 December 2021 the revaluation of financial assets measured at fair value through other comprehensive income amounted to EUR 0.0 million (2020: EUR 0.0 million), net of deferred tax.

Remeasurements of defined benefit pension liabilities

This equity component reflects the results of actuarial calculations related to the pension provision. As at 31 December 2021 the remeasurement of the pension provision amounted EUR 1,8 million (2020: EUR 1.7 million), net of deferred tax.

SCOPE OF CONSOLIDATION

36. Subsidiaries

A subsidiary is an entity controlled by another entity. All entities directly or indirectly controlled by the Bank are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2021, and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the bank's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies. All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are neither directly nor indirectly attributable to the owners of the Bank. Non-controlling interests are presented separately in the consolidated statement of income, in the consolidated statement of comprehensive income and within equity on the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised in equity.

Control

IFRS 10 'Consolidated Financial Statements' defines the investor's control over an investee in terms of the investor having all of the following:

- power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

- Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:
- power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

Business combinations

Business combinations are transactions whereby subsidiaries constituting a business or more businesses are acquired. Business combinations are accounted for using the acquisition method. Goodwill represents the future economic benefits resulting from the business combination arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests, and the fair value of the previously held equity interest over the net of the acquisition date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the statement of income under the line item ‘Other operating result’ in the year of acquisition.

Upon business combinations, non-controlling interests are measured at the proportionate share of the acquiree’s identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the statement of income line item ‘Other operating result’.

The following table presents overview of the carrying amounts of investments in subsidiaries, however these subsidiaries are fully consolidated within this consolidated financial statements:

EUR ths.	Cost		Impairment		Net book value	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Subsidiaries						
Procurement Services SK, s.r.o.	3	3	-	-	3	3
Služby SLSP, s. r. o. v likvidácii	14,903	-	-	-	14,903	-
S Slovensko, spol. s r.o.	24,848	-	-	-	24,848	-
SLSP Social Finance, s.r.o.	2,050	3,050	-	-	2,050	3,050
LANED a.s.	25,807	25,807	-	-	25,807	25,807
Total	**67,611**	**28,860**	**-**	**-**	**67,611**	**28,860**

Investments in subsidiaries of Slovenská sporiteľňa, a.s.

EUR ths.	Služby SLSP, s. r. o. v likvidácii		LANED,a.s.		Procurement Services SK, s.r.o.		S Slovensko, spol. s r.o.		SLSP Social Finance, s.r.o.	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Place of business	Tomášikova 48, 832 01 Bratislava, Slovenská republika		Tomášikova 48, 832 71 Bratislava, Slovenská republika		Tomášikova 48, 832 75 Bratislava, Slovenská republika		Tomášikova 48, 831 04 Bratislava, Slovenská republika		Tomášikova 48, 832 01 Bratislava, Slovenská republika	
Main business activity	Ancillary bank services		Real estate company		Procurement		Leasing company		Advisory services	
Ownership held	100%		100%		51%		100%		100%	60.40%
Voting rights held	100%		100%		51%		100%		100%	60.40%
IFRS Classification	Subsidiary		Subsidiary		Subsidiary		Subsidiary		Subsidiary	
Reporting currency	EURO		EURO		EURO		EURO		EURO	
Dividend income received	-	-	-	-	19	19	-	-	-	-
Investee's key financial information for the reporting year										
Cash and cash balances	25,964	-	4,028	4,043	166	245	25,631	-	56	267
Other current assets	-	-	9	103	102	57	217	-	-	-
Non-current assets	-	-	52,299	49,258	31	36	440	-	1,980	11,730
Current liabilities	-	-	26,567	21,849	-	-	-	-	-	7,012
Non-current liabilities	14	-	302	133	238	278	785	-	-	8
Operating result	(84)	(18)	2,445	2,527	(918)	(938)	(825)	-	(15)	(57)
Post-tax result from continuing operations	(342)	(18)	1,866	1,956	36	36	(1,029)	-	(15)	(57)
Total comprehensive income	(342)	(18)	1,866	1,956	36	36	(1,029)	-	(15)	(57)
Depreciation and amortization	-	-	(3,683)	(3,653)	-	-	(29)	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	(485)	(403)	-	-	-	-	-	(10)
Tax expense/income	-	-	(496)	(520)	(11)	(11)	(262)	-	-	-

Changes in subsidiaries during the year 2021

On 1 April 2021 the subsidiary S Slovensko, spol. S r. o. was merged with the Bank with impact of EUR 24.8 million to line item "Cash and cash balances" and EUR 0.4 million to the line item "Deferred tax asset". On 28 May 2021 has been completed the liquidation of the subsidiary Služby SLSP, s. r. o. in liquidation and a liquidation residue was distributed among its shareholders. Slovenská sporiteľňa, a.s. as a shareholder with 100 % share received a liquidation payment in the amount of EUR 26.0 million. In September 2021 the Bank additionally increased equity contribution to the subsidiary SLSP Social Finance, s.r.o. by EUR 1 million. As at 31 December 2021, the value of the investment in this subsidiary was EUR 3.1 million.

During 2021, the ownership share of SLSP Social Finance, s.r.o. have decreased from 100% (31.12.2020) to 60.40% (31.12.2021) due to the accession of another investor to the company.

Changes in subsidiaries during the year 2020

In February 2020 a subsidiary, SLSP Social Finance, s.r.o., was established in which the Bank has an ownership interest in the amount EUR 2.1 million and therefore represents a 100% share of the company's share capital. In April 2020 the Bank also acquired the ownership interest in the company LANED a.s. as a 100% share in the equity of the company at cost in the form of cash consideration in amount of EUR 25.8 million from its subsidiary Služby SLSP, s. r. o. In March 2020 an associate, Dostupný Domov j.s.a. was established by the Bank´s subsidiary SLSP Social Finance, s.r.o. which has an ownership interest in the associate in the amount EUR 2.0 million and represents a 49.88% share of the company's share capital.

37. Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, an interest in an associate or joint venture is recognised on the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's or joint venture's result is recognised in the consolidated statement of income in line item 'Net result from equity method investments'. The line item contains the result from associates and joint ventures recorded by applying the equity method (measured as the investor's share of profit or loss in the associates and joint ventures). However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item 'Other operating result'. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2021 and for the year then ended.

Associates are entities over which the Group exercises significant influence ('associates'). IAS 28 'Investments in Associates and Joint Ventures' defines significant influence as the power to participate in the financial and operating policy decisions of the investee without having control or joint control of those policies. Furthermore, IAS 28 indicates that if an entity holds, directly or indirectly 20% or more of the voting power of the investee, it is presumed that the entity has significant influence unless it can be clearly demonstrated that this is not the case.

In the case of the Group, all equity method investments are direct or indirect investments in associates and joint ventures over which the Group exercises significant influence or joint control stemming from voting power greater than 20% up to 50%.

Joint ventures are joint arrangements over which the Group exercises control jointly with one or more other venturers, with the venturers having rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group is not involved in joint arrangements which take form of joint operations.

The following table presents overview of the carrying amounts of investments in associates:

EUR ths.	Cost		Impairment CONS		Equity CONS		Net book value	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Associates								
Prvá stavebná sporiteľňa, a.s.	1,093	1,093	(8,052)	(12,032)	25,498	27,266	18,539	16,327
Slovak Banking Credit Bureau, s.r.o.	3	3	-	-	78	80	81	83
Holding Card Service s.r.o.	7,044	7,044	-	-	200	2,447	7,244	9,491
Dostupný Domov j.s.a. (49,88% associate of SLSP Social Finance, s.r.o.)	1,980	11,730	-	-	(73)	(205)	1,907	11,525
Total	**10,122**	**19,872**	**(8,052)**	**(12,032)**	**25,703**	**29,587**	**27,773**	**37,427**

Investments in associates of Slovenská sporiteľňa, a.s.

	Prvá stavebná sporiteľňa, a.s.		Slovak Banking Credit Bureau, s.r.o.		Holding Card Service, s.r.o.		Dostupný Domov j.s.a. (49,88% associate of SLSP Social Finance, s.r.o.)	
EUR ths.	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Place of business	Bajkalská 30 829 48 Bratislava, Slovenská republika		Mlynské nivy 14 821 09 Bratislava, Slovenská republika		Olbrachtova 1929/62 140 00 Praha 4, Česká republika		Farská 48 949 01 Nitra, Slovenská republika	
Main business activity	Banking		Retail credit register		Equity release company		Rental of real estate and related services	
Ownership held	9.98%	9.98%	33.33%	33.33%	24.62%	21.78%	49.88%	49.88%
Voting rights held	35.00%	35.00%	33.33%	33.33%	24.62%	21.78%	49.88%	49.88%
IFRS Classification	Associate		Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO		EURO	
Investee's key financial information for the reporting year								
Cash and cash balances	925	650	263	214	7	5	2,329	19,954
Other financial assets	2,860,315	2,848,544	9	47	-	-	1	4
Non-financial assets	89,732	89,528	-	-	29,419	43,574	1,625	3,034
Current liabilities	2,667,611	2,638,331	24	5	-	-	(94)	(48)
Non-current liabilities	16,912	17,084	-	-	-	-	(37)	(26)
Operating Income	38,399	37,505	25	26	(1)	(3)	(144)	(211)
Post-tax result from continuing operations	7,602	16,576	24	24	(1)	(3)	(146)	(217)
Total comprehensive income	7,602	16,576	24	24	(1)	(3)	(146)	(217)
Depreciation and amortization	(5,734)	(5,947)	-	-	-	-	(17)	(72)
Interest income	88,695	86,156	-	-	-	-	-	-
Interest expense	(28,997)	(26,795)	(1)	(2)	-	-	-	(1)
Tax expense/income	(2,746)	(5,206)	-	-	-	-	-	-

The classification of current and non-current financial assets and liabilities is based on the expected remaining maturities of assets and liabilities.

In 2021 was the impairment of the investment in Prvá stavebná sporiteľňa, a.s. in the amount of EUR 3.9 million recognised as expense in line item ‘Other operating result’. In 2020 the carrying amount of Prvá stavebná sporiteľňa, a.s. was impaired in the amount of EUR 8.1 million as a consequence of the extension and increase of the Slovak banking tax. The impairment loss was disclosed in line item ‘Other operating result’.

Changes in associates during the year 2021

During 2021, the ownership share of Holding Card Service, s.r.o. have decreased from 24.62% (31.12.2020) to 21.78% (31.12.2021) due to the accession of another investor to the company.

During 2021, the Group have increased the ownership share in associate Dostupný domov j.s.a in the amount of EUR 9.7 million.

Changes in associates during the year 2020

There were no significant changes in investments in associates during 2020.

OTHER DISCLOSURE MATTERS

38. Related-party transactions and principal shareholders

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by the only shareholder Erste Group Bank AG, which directly owns 100% share on the voting rights of the Bank. Further related parties include subsidiaries, which are under control of the Bank and associates, over which the Bank has significant influence. Moreover, other members of the Erste Group are also related parties of the Bank.

Transactions with related parties occur in the normal course of business and primarily include loans and deposits. These transactions are performed at arm's length, i.e. the terms and conditions applied respect market conditions.

Transactions between the Bank and fully consolidated companies are not recognised in the consolidated financial statements as they have been eliminated.

Balances exposures with related parties:

	Erste Group Bank AG		Companies of Erste Group		Associates	
EUR ths.	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**
Assets						
Cash and cash balances	7,681	5,261	3,155	225	-	-
Derivatives	7,996	6,834	-	27	-	-
Derivatives – Hedge accounting	28,095	11,540	-	-	-	-
Securities	-	-	-	-	5,255	5,254
Loans and advances to banks	1,934	1,805	85	62	3	1
Loans and advances to customers	-	-	1,904	1,989	-	-
Property and equipment, right-of-use	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	**45,706**	**25,440**	**5,144**	**2,303**	**5,258**	**5,255**
Liabilities						
Derivatives held for trading	48,043	39,643	2	-	-	-
Deposits from banks	51,410	676	470	1,170	213	189
Deposits from customers	-	-	3,185	6,307	-	-
Debt securities issued	679,377	573,274	3,020	2,988	-	-
Derivatives – hedge accounting	48,373	31,844	-	-	-	-
Lease liabilities	-	-	-	-	-	-
Other liabilities	251	2,873	1,567	332	-	-
Total	**827,454**	**648,310**	**8,244**	**10,797**	**213**	**189**

Expenses/Income generated by transactions with related parties:

	Erste Group Bank AG		Companies of Erste Group		Associates	
EUR ths.	2020	2021	2020	2021	2020	2021
Interest income	(7,511)	(7,818)	326	7	130	100
Interest expense	(288)	1,644	(10)	(8)	-	(10)
Dividend income	-	-	493	-	-	-
Net fee and commission income	(97)	(473)	8,110	13,494	1	1
Net trading result	(2,733)	14,352	438	(226)	-	-
General administrative expenses	(3,530)	(6,006)	(16,190)	(17,856)	-	-
Depreciation and amortisation	-	-	-	-	-	-
Other operating result	169	(2,048)	699	477	8	7
Total	**(13,990)**	**(349)**	**(6,134)**	**(4,112)**	**139**	**98**

Transactions with related parties are done at arm's length.

The amounts with Erste Group Bank AG reported in the line items 'Interest income' and 'Net trading result' represent results from derivative instruments used to close positions with the clients.

All issued investment certificates disclosed as AT1 instruments in equity at 31 December 2021 were purchased by Erste Group Bank AG (see note 35).

The Group received guarantees from its parent company Erste Group Bank AG covering clients' exposures in the amount of EUR 2.2 million as at the reporting date (2020: EUR 2.2 million).

The Group does not have a guarantee from its sister company Česká spořitelna, a.s. covering credit exposures towards s_Autoleasing SK, s.r.o. as at 31 December 2021 any more however the amount of this guarantee in 2020 was EUR 9.0 million.

The Group received guarantees from its sister company Česká spořitelna, a.s. covering clients' exposures in the amount of EUR 0.2 million as at the reporting date (2020: EUR 0.2 million).

As at 31 December 2021 the Group owned a share in real estate fund Sporo realitny fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of EUR 1.4 million (2020: EUR 1.7 million).

As at 31 December 2021 and in 2020, the Group did not receive any dividends from its associates

Remuneration of management and supervisory board members

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2021 in form of short-term employee benefits amounted to EUR 3.2 million (2020: EUR 2.5 million). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

39. Audit fees and tax consultancy fees

The following table contains fees charged by the auditors of the Bank and subsidiaries for the financial years 2021 and 2020; the auditors being PricewaterhouseCoopers Slovensko, s.r.o.

EUR ths.	2020	2021
Audit of consolidated financial statements	(545)	(554)
Other assurance services	(144)	(197)
Other non-audit services	(3)	(3)
Total	**(692)**	**(754)**

Other assurance services in the amount of 197 ths. EUR (2020: 144 ths. EUR) related to a review of the special-purpose standard reporting forms; reports ISAE 3000 and ISAE 3402 prepared in accordance with International Standard on Assurance Engagements; SRB AUP and services related to merger of S Slovensko, spol. s.r.o. Other non-audit services in the amount of 3 ths. EUR (2020: 3 ths. EUR) related to agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development.

40. Analysis of remaining maturities

Expected remaining maturities of assets and liabilities

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2020		31.12.2021	
Assets				
Cash and cash balances	1,717,486	-	2,907,420	-
Financial assets HfT	2,084	57,910	11,181	36,693
Derivatives	2,084	57,910	11,181	36,693
Non-trading financial assets at FVPL	-	15,287	-	15,068
Equity instruments	-	7,547	-	7,155
Debt securities	-	7,740	-	7,913
Financial assets at AC	2,112,619	16,146,278	2,213,773	17,282,915
Debt securities	159,354	3,520,350	70,424	3,841,234
Loans and advances to banks	49	-	49,983	-
Loans and advances to customers	1,953,216	12,625,928	2,093,366	13,441,681
Finance lease receivables	67,297	173,715	63,112	170,323
Hedge accounting derivatives	-	34,345	-	16,454
Property and equipment, right-of-use assets	-	150,155	-	145,557
Investment properties	-	1,898	-	1,518
Intangible assets	-	18,947	-	18,947
Investments in associates	-	27,773	-	37,427
Current tax assets	8	-	-	-
Deferred tax assets	-	76,980	-	69,107
Trade and other receivables	81,774	-	129,088	-
Other assets	21,738	-	35,692	-
Total assets	**4,003,006**	**16,703,288**	**5,360,266**	**17,794,009**

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2020		31.12.2021	
Liabilities				
Financial liabilities HfT	1,938	54,586	11,782	34,349
Derivatives	1,938	54,586	11,782	34,349
Financial liabilities at AC	15,185,885	3,467,621	16,302,381	4,547,185
Deposits from banks	32,664	1,677,591	34,929	2,858,418
Deposits from customers	14,831,000	38,015	15,944,549	28,214
Debt securities in issued	299,716	1,752,015	286,377	1,660,553
Other financial liabilities	22,505	-	36,526	-
Lease liabilities	6,038	14,539	6,161	13,890
Hedge accounting derivatives	2,320	46,053	-	31,844
Provisions	18,663	13,173	26,033	17,180
Current tax liabilities	22,600	-	2,222	-
Deferred tax liabilities	-	-	-	-
Other Liabilities	80,584	-	110,711	-
Total liabilities	**15,318,028**	**3,595,972**	**16,459,290**	**4,644,448**

41. Events after the balance sheet date

There are no significant events after the balance sheet date.

STATEMENT OF MEMBERS OF THE MANAGEMENT BOARD

We confirm that to the best of our knowledge the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties to which the Group is exposed.

Ing. Peter Krutil	Ing. Pavel Cetkovský
Chairman of the Board of Directors and Chief Executive Officer Officer	Member of the Board of Directors and Deputy of Chief Executive

Bratislava, 15 February 2022

Slovenská sporiteľňa, a.s.

Separate financial statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2021

(Translated version, original version in Slovak)

Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Slovenská sporiteľňa, a.s.:

Report on the audit of the separate financial statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Slovenská sporiteľňa, a.s. (the "Bank") as at 31 December 2021, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 23 February 2022.

What we have audited

The Bank's separate financial statements comprise:

- the separate statement of income for the year ended 31 December 2021;
- the separate statement of comprehensive income for the year ended 31 December 2021;
- the separate statement of financial position as at 31 December 2021;
- the separate statement of changes in equity for the year ended 31 December 2021;
- the separate statement of cash flows for the year ended 31 December 2021; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Act No. 423/2015 on Statutory Audit and on the amendments and supplements to the Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory Audit") that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Act on Statutory Audit.

To the best of our knowledge and belief, we declare that non-audit services that we have provided are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

PricewaterhouseCoopers Slovensko, s.r.o., Twin City/A, Karadžičova 2, 815 32 Bratislava, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The firm's ID No.: 35 739 347. The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.
IČO Spoločnosti je 35 739 347. Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

The non-audit services that we have provided to the Bank, in the period from 1 January 2021 to 31 December 2021, are disclosed in Note 39 to the separate financial statements.

Our audit approach

Overview

Materiality	Overall materiality is EUR 12.56 million, which represents approximately 5% average of the last three-year profit before income tax and levy on banking activities.
Key audit matters	Credit loss allowance estimate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate financial statements as a whole.

pwc

Overall materiality	EUR 12.56 million
How we determined it	We determined the materiality as approximately 5% average of the last three-year profit before income tax and levy on banking activities.
Rationale for the materiality benchmark applied	Performance of the Bank is most commonly evaluated by the financial statements' users based on the Bank´s profitability. The quantitative threshold of approximately 5% was applied to average three-year profit before income tax and levy on banking activities recorded by the Bank during the years 2021, 2020 and 2019. Levy on banking activities was added to profit before income tax because of the similar nature to income tax. The recent economic development resulting from the COVID-19 pandemic led to volatility in the Bank´s profit before tax. Average three-year profit before tax adjusted for the levy represents a stable materiality benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Credit loss allowance estimate	
As explained in Note 13, Note 14 and Note 31 to the separate financial statements, management estimated the total credit loss allowances for loans and advances to customers, finance lease receivables and trade and other receivables at EUR 342,076 thousand. The carrying value of loans and advances to customers, finance lease receivables and trade and other receivables measured at amortised cost may be materially misstated if the individual or collective credit loss allowances are not appropriately identified and estimated. The estimates required for measuring credit loss allowances under the expected credit loss models are	We assessed and tested the design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans. We tested the design and operating effectiveness of general IT controls, including access to programs and data, program changes and computer operations related to quantification of credit loss allowances. We verified that models used for quantification of credit loss allowances are in line with the requirements of IFRS 9. A sample of loan exposures was examined to test accuracy of the credit loss allowances calculated on an individual basis. We assessed management's assumptions, including forecasts of the future cash flows, by comparing them to historical performance of the customer and expected future performance, as well as the external and internal valuations of the underlying collateral, by comparing them to the values used by management in the credit loss allowance

pwc

Key audit matter	How our audit addressed the key audit matter
significant estimates. The identification of significant increase in credit risk or default; the estimation of credit loss including estimates of future cash flows and valuation of collateral; application of comprehensive credit models - all involve significant management judgement. In 2021, the estimate of credit loss allowances continued to be influenced by the COVID-19 pandemic, partial recovery of the economic activity and ongoing uncertainty about the pandemic's impact on the economy and the financial condition of the Bank's customers. Due to the significance of the amount of the credit loss allowances and material impact of the credit loss allowances on the net result for the year, we consider the credit loss estimate as a key audit matter.	quantification. On a sample basis, we assessed the underlying models, reasonableness of assumptions, completeness and accuracy of the underlying data, which were used by the Bank to estimate the collective credit loss allowances for loans that share similar credit risk characteristics. The underlying models and expert judgement applied by the Bank in response to the COVID-19 pandemic were assessed by our specialists for financial risk management and modelling. They assessed the design and application of the models in line with the relevant reporting standards, including introduction of additional criteria used for identification of significant increase in credit risk and shifts in risk parameters due to the COVID-19 pandemic. The specialists assessed reasonableness of the forward-looking information and its impact on the risk parameters and accuracy of the collective credit loss allowances. Our specialists assessed a validation process implemented by the Bank and interpreted results of the validation report.

Reporting on other information including the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and separate financial statements and our auditor's reports thereon).

Our opinion on the separate financial statements does not cover the other information.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Report, we considered whether it includes the disclosures required by the Act on Accounting No. 431/2002, as amended (hereafter the "Accounting Act").

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Annual Report for the financial year for which the separate financial statements are prepared, is consistent with the separate financial statements; and
- the Annual Report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Annual Report. We have nothing to report in this regard.

pwc

Responsibilities of management and those charged with governance for the separate financial statements

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

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

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

Auditor's responsibilities for the audit of the separate financial statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

pwc

Report on other legal and regulatory requirements

Appointment as an independent auditor

We were first appointed as auditors of the Bank on 27 March 2017. Our appointment has been renewed annually by the shareholder's resolution representing a total period of uninterrupted engagement appointment of five years. Our appointment for the year ended 31 December 2021 was approved by the shareholder's resolution on 24 March 2021.

The engagement partner on the audit resulting in this independent auditor's report is Mgr. Martin Gallovič.

Slovenská komora audítorov SKAU Č. licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Mgr. Martin Gallovič
UDVA licence No. 1180

24 February 2022, except for the section "Reporting on other information including the Annual Report" of this report, for which the date of our report is 18 March 2022.

Bratislava, Slovak Republic

CONTENT

Separate statement of income		238
Earnings per share		238
Separate statement of comprehensive income		239
Separate statement of financial position		240
Separate statement of changes in equity		241
Separate statement of cash flows		243
Notes to the separate financial statements		**245**
Performance / Return		**250**
1.	Segment reporting	250
2.	Net interest income	253
3.	Net fee and commission income	254
4.	Dividend income	255
5.	Net trading result	255
6.	Gains/losses from financial instruments measured at fair value through profit or loss	256
7.	Rental income from investment properties & other operating leases	256
8.	General administrative expenses	257
9.	Impairment result from financial instruments	258
10.	Other operating result	259
11.	Taxes on income	260
Financial instruments – Significant accounting policies		**264**
Financial instruments held at amortised cost		**269**
12.	Cash and cash balances	270
13.	Financial assets at amortised cost	271
14.	Trade and other receivables	283
15.	Financial liabilities at amortised costs	286
Financial instruments at fair value through profit or loss		**290**
16.	Derivative financial instruments	291
17.	Non-trading financial assets at fair value through profit or loss	292
Financial instruments – other disclosure matters		**293**
18.	Fair value of financial instruments	293
19.	Hedge accounting	301
20.	Offsetting of financial instruments	304
21.	Transfers of financial assets – repurchase transactions and securities lending	305
22.	Collaterals	307
Risk and capital management		**308**
23.	Risk management	308
24.	Own funds and capital requirements	314
25.	Credit risk	317
26.	Market risk	365
27.	Liquidity risk	368
28.	Operational risk	371
Non-current assets and other investments		**376**
29.	Property, equipment, investment properties and right of use assets	376
30.	Intangible assets	378
31.	Other assets	380
Leases		**381**
Accruals, provisions, contingent liabilities and legal proceedings		**386**
32.	Other liabilities	386
33.	Provisions	386
34.	Contingent liabilities	391
Capital instruments, equity and reserves		**392**
35.	Total equity	392
36.	Subsidiaries	394
37.	Investments in associates	396
Other disclosure matters		**398**
38.	Related-party transactions and principal shareholders	398
39.	Audit fees and tax consultancy fees	400
40.	Analysis of remaining maturities	401
41.	Events after the balance sheet date	402
Statement of members of the Management Board		**402**

Separate statement of income

for the year ended 31 December 2021

EUR ths.	Notes	2020	2021
Net interest income	2	434,048	428,292
Interest income		445,560	421,720
Other similar income		18,127	39,478
Interest expenses		(21,580)	(18,202)
Other similar expenses		(8,059)	(14,704)
Net fee and commission income	3	147,340	174,347
Fee and commission income		170,523	194,615
Fee and commission expenses		(23,183)	(20,268)
Dividend income	4	647	620
Net trading result	5	8,224	9,795
Gains/losses from financial instruments measured at fair value through profit or loss	6	1,510	(706)
Rental income from investment properties & other operating leases	7	265	262
Personnel expenses	8	(157,554)	(154,482)
Other administrative expenses	8	(92,589)	(104,273)
Depreciation and amortisation	8	(39,736)	(36,819)
Gains/losses from derecognition of financial assets measured at amortised cost		1	1
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss		(16)	(2,643)
Impairment result from financial instruments	9	(107,939)	(1,099)
Other operating result	10	(40,801)	(352)
Levies on banking activities		(37,751)	(4,665)
Pre-tax result from continuing operations		**153,400**	**312,943**
Taxes on income	11	(38,767)	(73,515)
Net result for the period		**114,633**	**239,428**

Earnings per share

Earnings per share constitute net profit/loss for the year attributable to owners of the parent divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) that would occur if all subscription and conversion rights granted were exercised (also see Note 35 Total equity). As in the previous year no subscription and conversion rights were outstanding during the financial year. Diluted earnings per share were equal to the basic earnings per share.

		2020	2021
Net result attributable to owners of the parent	EUR ths.	114,633	239,428
Number of outstanding shares	pcs.	212,000	212,000
Earnings per share	**EUR**	**541**	**1,129**

The notes on pages 245 to 402 are an integral part of these separate financial statements.

Separate statement of comprehensive income

for the year ended 31 December 2021

For a detailed split of income tax items within other comprehensive income please refer to Note 11 Taxes on income.

EUR ths.	2020	2021
Net result for the period	**114,633**	**239,428**
Other comprehensive income		
Items that may not be reclassified to profit or loss	**7,834**	**(59)**
Remeasurement of defined benefit plans	(1,012)	(74)
Fair value reserve of equity instruments	10,690	-
Deferred taxes relating to items that may not be reclassified	(1,844)	15
Items that may be reclassified to profit or loss	**-**	**-**
Total other comprehensive income	**7,834**	**(59)**
Total comprehensive income	**122,467**	**239,369**

The notes on pages 245 to 402 are an integral part of these separate financial statements.

Separate statement of financial position

as at 31 December 2021

EUR ths.	Notes	31.12.2020	31.12.2021
Assets			
Cash and cash balances	12	1,717,486	2,907,420
Financial assets held for trading	16	59,994	47,874
Derivatives		59,994	47,874
Non-trading financial assets at fair value through profit or loss	17	15,287	21,064
Equity instruments		7,547	7,155
Debt securities		7,740	13,909
Financial assets at amortised cost	13	18,285,464	19,518,537
Pledged as collateral		3,540,330	4,323,689
Debt securities		3,679,704	3,911,658
Loans and advances to banks		49	49,983
Loans and advances to customers		14,605,711	15,556,896
Finance lease receivables	31	241,012	233,435
Hedge accounting derivatives	19	34,345	16,454
Property and equipment, right-of-use assets	29	119,345	110,972
Investment properties	29	1,898	1,518
Intangible assets	30	18,947	18,947
Investments in subsidiaries and associates	36,37	75,753	37,002
Deferred tax assets	11	75,666	67,843
Trade and other receivables	14	81,597	128,930
Other assets	31	20,947	35,692
Total assets		**20,747,741**	**23,145,688**
Liabilities and Equity			
Financial liabilities held for trading	16	56,524	46,131
Derivatives		56,524	46,131
Financial liabilities at amortised cost	15	18,709,308	20,853,049
Deposits from banks		1,710,255	2,893,347
Deposits from customers		14,924,817	15,977,315
Debt securities issued		2,051,731	1,945,861
Other financial liabilities		22,505	36,526
Lease liabilities		39,878	32,333
Hedge accounting derivatives	19	48,373	31,844
Provisions	33	31,836	43,214
Current tax liabilities	11	21,908	2,193
Other liabilities	32	79,910	110,892
Equity		1,760,004	2,026,032
Equity attributable to owners of the parent	35	1,760,004	2,026,032
Subscribed capital		212,000	212,000
Additional equity instruments		300,000	380,000
Retained earnings and other reserves		1,248,004	1,434,032
Total liabilities and equity		**20,747,741**	**23,145,688**

The notes on pages 245 to 402 are an integral part of these separate financial statements.

Separate statement of changes in equity

for the year ended 31 December 2021

EUR ths.	Subscribed capital	Retained earnings and other funds: Legal reserve fund	Retained earnings and other funds: Other funds	Retained earnings and other funds: Retained earnings	Fair value reserve	Remeasurement of defined benefit pension liabilities	Additional equity instruments	Equity attributable to owners of the parent	Total equity
As of 01.01.2021	**212,000**	**79,795**	**39,104**	**1,130,796**	**-**	**(1,691)**	**300,000**	**1,760,004**	**1,760,004**
Dividends paid / Distribution for Investment certificate	-	-	-	(53,926)	-	-	-	**(53,926)**	**(53,926)**
Capital increases	-	-	-	-	-	-	80,000	**80,000**	**80,000**
Other changes	-	-	-	585	-	-	-	**585**	**585**
Total comprehensive income	-	-	-	239,428	-	(59)	-	**239,369**	**239,369**
Net result for the period	-	-	-	239,428	-	-	-	**239,428**	**239,428**
Other comprehensive income	-	-	-	-	-	(59)	-	**(59)**	**(59)**
Change from remeasurement of defined benefit pension liabilities	-	-	-	-	-	(59)	-	**(59)**	**(59)**
As of 31.12.2021	**212,000**	**79,795**	**39,104**	**1,316,883**	**-**	**(1,750)**	**380,000**	**2,026,032**	**2,026,032**

As at 31 December 2021 the impact of deferred tax included in ´Fair value reserve´ amounts EUR 0.0 million (2020: EUR -17.5 million) and the impact of deferred tax included in ´Remeasurement of defined pension liabilities´ amounts EUR 0.0 million (2020: EUR 0.2 million). For more details on deferred tax please refer to note 11.

For more details on the transaction of AT1 certificate issue included in the line item ´Capital increases/ decreases´ please refer to note 35.

EUR ths.	Subscribed capital	Retained earnings and other funds			Fair value reserve	Remeasurement of defined benefit pension liabilities	Additional equity instruments	Equity attributable to owners of the parent	Total equity
		Legal reserve fund	Other funds	Retained earnings					
As of 01.01.2020	**212,000**	**79,795**	**39,104**	**1,034,655**	**65,963**	**(891)**	**150,000**	**1,580,626**	**1,580,626**
Dividends paid / Distribution for Investment certificate	-	-	-	(93,089)	-	-	-	**(93,089)**	**(93,089)**
Capital increases	-	-	-	-	-	-	300,000	**300,000**	**300,000**
Capital decreases	-	-	-	-	-	-	(150,000)	**(150,000)**	**(150,000)**
Reclassification from other comprehensive income to retained earnings	-	-	-	74,597	(74,597)	-	-	**-**	**-**
Total comprehensive income	-	-	-	114,633	8,634	(800)	-	**122,467**	**122,467**
Net result for the period	-	-	-	114,633	-	-	-	**114,633**	**114,633**
Other comprehensive income	-	-	-	-	8,634	(800)	-	**7,834**	**7,834**
Change from remeasurement of defined benefit pension liabilities	-	-	-	-	-	(800)	-	**(800)**	**(800)**
As of 31.12.2020	**212,000**	**79,795**	**39,104**	**1,130,796**	**-**	**(1,691)**	**300,000**	**1,760,004**	**1,760,004**

For more details on the transaction of AT1 certificate issue included in the line item ´Capital increases/ decreases´ please refer to note 35.

During the year 2020 the Bank sold its share in the company Mastercard Incorporated and Visa Inc. due to the fact that the reasons for holding of this share as a strategic business decision of the Bank have passed. Additionally, the Bank also reclassified Class C convertible shares of Visa Inc. from equity instrument under ´Financial assets at fair value through other comprehensive income´ category to the debt instrument under ´Non-trading financial assets at fair value through profit or loss´ category as a result of classification reassessment after new technical interpretations of contractual features.

The notes on pages 245 to 402 are an integral part of these separate financial statements.

Separate statement of cash flows

for the year ended 31 December 2021

EUR ths.	2020	2021
Profit before income taxes	**153,400**	**312,942**
Non-cash adjustments for:		
Loss allowances for loans and advances, Provisions for off-balance sheet	107,918	1,172
Provisions for liabilities and other liabilities	(1,989)	2,681
Impairment of tangible and intangible assets net	(1,812)	(1,546)
Depreciation and amortization	39,736	36,819
Profit/(loss) on disposal of fixed assets	2,749	161
Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	(87)	(113)
Accrued interest, amortisation of discount and premium	(3,268)	17,085
Transfer of dividends received to investing activities	(724)	(608)
Investments in subsidiaries and associates	-	(11,022)
Cash flows from operations before changes in operating assets and liabilities	**295,923**	**357,571**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	(1,266,247)	(1,129,869)
Financial assets held for trading	(18,571)	12,120
Non-trading financial assets at fair value through profit or loss	(8,441)	(5,084)
Equity instruments	(83)	504
Debt securities	(8,358)	(5,588)
Financial assets at fair value through other comprehensive income	(10,406)	-
Financial assets at amortised cost	(1,022,859)	(1,284,631)
Debt securities	(153,206)	(250,137)
Loans and advances to banks	6	(49,934)
Loans and advances to customers	(869,659)	(984,560)
Finance lease receivables	(27,821)	7,138
Hedge accounting derivatives	(11,325)	17,891
Trade and other receivables	25,096	(47,333)
Other assets from operating activities	12,128	(15,186)
Increase / (decrease) in operating liabilities:		
Financial liabilities held for trading	20,504	(10,393)
Financial liabilities measured at amortised cost	1,932,072	2,250,697
Deposits from banks	1,446,968	1,183,092
Deposits from customers	506,814	1,053,584
Other financial liabilities	(21,710)	14,021
Hedge accounting derivatives	332	(16,529)
Provisions	12,397	8,520
Other liabilities from operating activities	(63)	29,307
Net cash flows provided by / (used in) operating activities before income tax	**(67,281)**	**174,219**

Table continues on the following page.

EUR ths.	2020	2021
Net cash flows provided by / (used in) operating activities before income tax	***(67,281)***	***174,219***
Income taxes paid	(50,793)	(83,240)
Net cash flows provided by / (used in) operating activities	**(118,074)**	**90,979**
Cash flows from investing activities		
Dividends received from subsidiaries, associates and other investments	724	608
Purchase of share in subsidiaries and associates	(27,858)	(1,000)
Proceeds from liquidation of subsidiaries and associates	-	25,925
Proceeds from merge of subsidiaries and associates	-	24,848
Proceeds from sale of investments	94,560	-
Purchase of intangible assets, property and equipment	(21,616)	(20,843)
Proceeds from sale of intangible assets, property and equipment	3,815	796
Net cash flows provided by / (used in) investing activities	**49,625**	**30,334**
Cash flows from financing activities		
Dividends paid	(93,089)	(53,926)
AT1 certificate - issue	150,000	80,000
Repayment of subordinated debt	(10,000)	(10,000)
Issue of subordinated debt	30,000	-
Issue of the bonds	161,739	231,347
Repayment of the bonds	(205,455)	(295,591)
Lease liabilities	(13,968)	(13,753)
Net cash flows provided by / (used in) financing activities	**19,227**	**(61,923)**
Effect of foreign exchange rate changes on cash and cash equivalents	(980)	675
Net increase / (decrease) in cash and cash equivalents	**(50,202)**	**60,065**
Cash and cash equivalents at beginning of period	**413,554**	**363,352**
Cash and cash equivalents at end of period	**363,352**	**423,417**
Operational cash flows from interest and dividends (included in cash flow from operating activities)	**386,115**	**350,792**
Income taxes paid	(50,793)	(83,240)
Interest paid	(12,631)	(43,752)
Interest received	448,815	477,177
Dividends received	724	608

Cash and cash equivalents are equal to cash in hand, cash balances at central banks and other demand deposits. Further information related to net debt reconciliation are provided in note 15.

The notes on pages 245 to 402 are an integral part of these separate financial statements

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

General information

Slovenská sporiteľňa, a.s. (hereafter 'the Bank') has its registered office at Tomášikova 48, 832 37 Bratislava, Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653. The tax identification number of the Bank is 2020411536.

The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial and private customers, principally in the Slovak Republic.

As of 31 December 2021, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ('ERSTE Foundation'), a foundation, holds together with its partners in shareholder agreements the share in Erste Group Bank AG and represents the main shareholder. Besides the direct holding of ERSTE Foundation, the indirect participation of the ERSTE Foundation is held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated company of the ERSTE Foundation, and also by Austrian savings banks and their foundations acting together with the ERSTE Foundation and affiliated with Erste Group Bank AG through the Haftungsverbund. Further part of the subscribed capital is held by the ERSTE Foundation on the basis of a shareholder agreement with CaixaBank S.A. and residual share represents minority direct holdings held by other partners to other shareholder agreements.

The Board of Directors of the Bank had four members as at 31 December 2021:
Ing. Peter Krutil (chairman), Ing. Pavel Cetkovský (member), RNDr. Milan Hain, PhD. (member) and Mgr. Ing. Norbert Hovančák (member).

Mgr. Zdeněk Románek resigned as a member of the Board of Directors of the Bank on 30th November 2021 based on his own decision.

The chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The deputy chairman of the Board of Directors is the first deputy of the Chief Executive Officer. Other members of the Board of Directors are the deputies of the Chief Executive Officer. In 2021, the deputy chairman of the Board of Directors was not appointed.

The Supervisory Board of the Bank had five members as at 31 December 2021:
Ing. Stefan Dörfler (chairman), Mag. Jan Homan (vice-chairman), Paul Formanko, MBA (member), JUDr. Vazil Hudák (member) and JUDr. Beatrica Melichárová (member).

Former member of the Supervisory Board Mgr. Alena Adamcová (employee representative on the Supervisory Board) expired the mandate on 2nd November 2021.

As at 31 December 2021, two members resigned as members of the Supervisory Board. Ing. Stefan Dörfler resigned due to the fact that he became the Chairman of the Supervisory Board in another bank from the EGB Group and JUDr. Beatrica Melichárová (employee representative on the Supervisory Board) resigned based on her own decision.

The Bank is subject to various regulatory requirements of local, Slovak regulatory bodies defined by Slovak legislation as well as European regulatory bodies defined by EU legislation.

The Bank is under direct supervision of the European Central Bank within a Single Supervision Mechanism.

These separates financial statements have been prepared and authorized for issue by the management board as at the signing date of this report. However these separate financial statements are subject of approval on the supervisory board (23 February 2022) and the annual general meeting (22 March 2022).

Significant accounting policies

a) Basis of preparation

The separate financial statements of the Bank for the financial year ending on 31 December 2021 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002.

The principal accounting policies applied in the preparation of these separate financial statements are set out in respective parts of these statements. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Measurement bases or bases used in the financial statements (like amortised cost, fair value, atc.) are set our in respective parts of these statements.

The separate financial statements have been prepared on a going concern basis.

The Bank is subject to regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU. As a consequence of the COVID-19 crisis, the European Central Bank as well as some local national banks issued recommendations to restrict dividend payouts. However the Bank could pay dividend to its parent company Erste Group Bank AG, for more details see Note 35. The Bank does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Bank. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Bank's ability to access or use the assets and settle the liabilities of the Bank.

Except as otherwise indicated, all amounts are stated in thousands of EUR ('EUR ths.'). The tables in this report may contain rounding differences.

b) COVID-19 disclosures

In the separate financial statements of the Bank, considerations and significant impacts of the COVID-19 outbreak are presented in those chapters to which they can be assigned thematically. An overview about these disclosures is presented in the following:

The chapter 'c) Accounting and measurement methods' discusses the accounting and measurement methods used for public moratoria and payment holidays, public guarantees including significant effects of those topics on the separate financial statements in 2021.
The chapter 'd) Significant accounting judgements, assumptions and estimates' contains information about the key sources of estimation uncertainty in the light of the COVID-19 outbreak.
Note 25 Credit risk contains a separate sub-chapter 'COVID-19' which explains the considerations of the pandemic on the ECL measurement, sensitivity analyses and information on credit exposures subject to certain COVID-19 measures.

c) Accounting and measurement methods

Foreign currency translation

The separate financial statements are presented in EURo, which is the functional currency of the bank. The functional currency is the currency of the primary business environment in which an entity operates.
For foreign currency translation, exchange rates quoted by the central banks in each country are used. For the Bankwith the EURo as functional currency, these are the European Central Bank reference rates.

i. Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions, i.e. they do not give rise to exchange differences. Non-monetary items that are measured at fair value (such as equity investments) in a foreign currency are translated using the exchange rates at the date when the fair value is measured, thus the exchange differences are part of the fair value gains or losses.

Accounting treatment of issues related to COVID-19

i. Public moratoria and payment holidays

In light of the spread of COVID-19, a variety of measures have been taken by Slovak government aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include public moratoria on repayment of loans, overdraft facilities and mortgages. Further, some the Bank is offering renegotiations of repayment schedules and payment holidays on a voluntary basis to customers facing liquidity shortages.

The public moratoria in general relate to customers which were performing and to their exposures existing before the outbreak of COVID-19 pandemic. Public moratoria are based on an opt-in approach meaning that customers have to ask the bank for the payment reliefs. The range of payment deferral periods was originally enacted between 3 to 9 months. Interest continues to accrue on the outstanding balance during the moratorium period. Nevertheless, an economic loss is incurred as a result of increased credit loss allowances. However modification losses are not recognised from accounting perspective due to immateriality.

Moratoria modify contractual cash flows of the related financial asset and are therefore treated as contractual modifications within the meaning of IFRS 9. The accounting policies disclosed in chapter “Financial instruments – Significant accounting policies”, part “Derecognition of financial instruments including treatment of contractual modifications” apply.

The public moratoria and payment holidays applied in the bank did not lead to derecognition. In particular, this is because the moratoria and payment holidays are typically below one year and in most cases the contractual interest continues to accrue during the suspension phase. Thus the present value effect of the modification (discounted at pre-modification effective interest rate) is less than 10%.

In the statement of income, the modification gain or loss, if any occurred, is presented in the line 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss, if any, is presented in the line 'Impairment result from financial instruments'.

With respect to the assessment of significant increases in credit risk (SICR), the bank does not consider the public moratoria and payment holidays in itself as automatic SICR triggers, but applies its specific assessment rules consisting of qualitative information and quantitative thresholds. Details on this assessment and other considerations on the expected credit loss estimation in the light of the COVID-19 outbreak are described in Note 25 Credit risk.

Most of the moratoria expired in January and February and the Bank released approximately EUR 8 mil. of provisions in Retail and EUR 16 million in Corporate portfolio.

ii. Public guarantees

In their efforts to mitigate the economic effects of COVID-19, Slovak government are providing public guarantees on banks' exposures. The relevant accounting policy for financial guarantees is disclosed in note 33 Provisions, part Financial guarantees. Financial guarantees received in the context of public COVID-19 measures typically related to new credit facilities and are therefore considered as integral. Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets. The existence of such credit enhancements does not affect the SICR assessment.

iii. Impairment of financial instruments

One of contributors to the impairment allocation in the line item „Impairment result from financial instruments" is directly attributable to changes in macro environment and management actions to identify mostly affected portfolios due to COVID-19 pandemic. Observed deteriorations in credit portfolios, which were also significantly driven by COVID-19 situation, are the main reason for the remaining impairment allocation in 2020. However in 2021 adverse positive effects have been recognized on line item "Impairment result from financial instruments" as a result of positive development of credit risk of customers.

Details on the effects of COVID-19 on the expected credit loss estimation are described in Note 25 Credit risk.

d) Accounting judgements, assumptions and estimates

The separate financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are described in the notes of the respective assets and liabilities and relate in particular to:

- SPPI assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)
- Business model assessment of financial instruments (Chapter Financial instruments – Significant accounting policies)
- Fair value of financial instruments (Note 18 Fair value of financial instruments)
- Impairment of financial instruments (Chapter Financial instruments – Significant accounting policies, Note 25 Credit risk)

The COVID-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect Bank´s financial performance and position, including significant impacts for expected credit losses, as well as impacts on operating income and other non-financial assets impairment assessments. All effects that could be reasonably estimated were recognised by 2021 end. The Bank will continue to follow the developments closely and will recognise any effects as the situation further unfolds.

e) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2021. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2021 and have been endorsed by the EU:

_ Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2
_ Amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021
_ IFRS 17: Insurance Contracts

Application of the above mentioned amendments in 2021 did not have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective

The standards and amendments shown below were issued by the IASB but are not yet effective.

Following amendments to standards are already endorsed by the EU:
- Annual Improvements to IFRSs 2018-2020 Cycle
- IFRS 17: Insurance contracts

Following standards and amendments and interpretations have not yet been endorsed by the EU until the date of approval of these financial statements:
- Amendments to IAS 1: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Annual Improvements to IFRSs 2018-2020 Cycle. In May 2020, the IASB issued a set of amendments to various standards. The amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 9 clarifies that only fees paid or received between the entity (the borrower) and the lender are included in applying the ‘10 per cent’ test for derecognition of a financial liability. Application of these amendments is not expected to have a significant impact on Bank’s financial statements.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Bank is in process of assessing whether some of its contracts fall in scope of IFRS 17. The Bank will estimate the effect on its financial statements when this has been clarified.

Amendments to IAS 1: Disclosure of Accounting policies. The amendments to IAS 1 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that an entity is required to disclose its material accounting policy information. A guidance was added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. Application of these amendments is not expected to have a significant impact on Bank’s financial statements. However, revisions in the disclosures of the accounting policies may be required.

Amendments to IAS 8: Definition of Accounting Estimates. The amendments to IAS 8 were issued In February 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. Application of these amendments is not expected to have a significant impact on Bank’s financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments to IAS 12 were issued In March 2021 and are effective for annual periods beginning on or after 1 January 2023. The amendments specify that the initial recognition exemption stipulated in IAS 12.15(b) and IAS12.24 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Application of these amendments is not expected to have a significant impact on Bank’s financial statements.

PERFORMANCE / RETURN

1. Segment reporting

The segment reporting of the Bank is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Bank the function of the chief operating decision maker is executed by the Board of Directors. In addition, the Bank's segment reporting follows the standards of the Erste Group issued for the purpose to unify presentation, measurement and steering of the Bank.

Business segments

The segment reporting comprises four business segments reflecting management structure of the Bank and its internal management reporting in 2021.

The Bank - business segments			
Retail	Corporates	Asset Liability Management (ALM), Local Corporate Center (LCC) and Free Capital (FCAP)	Group Markets

The Bank applies account manager principle for the definition of segments / business lines. It means that each client has assigned one account manager from a particular segment / business line. Subsequently, profit or loss on business transactions with the client is allocated to that account manager.

Retail segment comprises the entire business activities with private individuals, free professionals and micros, which are in the responsibility of account managers in the Retail network. Retail products and services, including current accounts and savings, loans pledged by real estate, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance, asset management products and building society products) are offered via various distribution channels, such as branch network and digital banking. The Retail segment is divided into 8 regions and 200 branches (status as at 31 December 2021).

Corporates segment The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business.

Asset Liability Management (ALM), Local Corporate Center (LCC) segment and Free Capital (FCAP) Segment comprises on the one side the management of Bank's assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions. On the other side it also includes the local corporate center which comprises all non-core banking business activities such as non-profit servicing participations, intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets) which cannot be allocated to other business segments. Apart from that the Local Corporate Center includes received dividends and reconciliations to the accounting result. The segment comprises also Free Capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to all operating segments.
Group Markets (GM) segment comprises trading and markets services, as well as business with financial institutions. This segment is divided into Treasury trading and market services (GMT) and Financial institutions (GMFI):

- Treasury trading and Market services (GMT) comprises all activities related to active risk taking and managing in regulatory trading books of the Bank, additional to that the execution of trades against the market using the trading books of the Bank for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.

- Financial institutions (GMFI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Measurement

The profit and loss statement of the segment report is based on the measures reported to the Bank's Board of Directors for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report of the Bank are based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the separate financial statements of accounting.

Interest revenues are not reported separately from interest expenses for each reportable segment. Those measures are reported on the net basis within the position 'Net interest income' as interest revenues and interest expenses are neither included into the measure of segment profit or loss reviewed by the chief operating decision maker nor otherwise regularly provided to the chief operating decision maker. Chief operating decision maker relies solely on net interest income to assess the performance of the segments and make decisions about resources to be allocated to the segments. Net fee and commission income and Other operating result are reported on a net basis according to the regular reporting to the chief operating decision maker.

Capital consumption per segment is regularly reviewed by the management of the Bank to assess the performance of the segments. The average allocated equity is determined by credit risk, market risk and operational risk. In line with the regular internal reporting prepared for the Board of Directors, total assets, total liabilities, as well as risk weighted assets and allocated equity are disclosed per segment. Total average allocated capital for the Bank equals average total equity of the Bank. For measuring and assessing the profitability of segments within the Bank, such key measures as return on allocated capital and cost/income ratio are used.

Return on allocated capital is defined as net result for the period before minorities in relation to the average allocated capital of the respective segment. Cost/income ratio is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading result, gains/losses from financial instruments measured at fair value through profit or loss, net result from equity method investments, rental income from investment properties and other operating lease).

Business Segments	Retail		Corporates		Group markets		Asset Liability Management, Local Corporate Center and Free Capital		Total	
EUR ths.	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Net interest income	317,216	259,565	84,747	92,081	1,506	784	30,579	75,862	434,048	428,292
Net fee and commission income	123,300	141,398	20,043	24,056	9,703	14,259	(5,706)	(5,366)	147,340	174,347
Dividend income	-	-	-	-	-	-	647	620	647	620
Net trading result	3,179	4,309	2,592	3,808	1,991	2,416	462	(738)	8,224	9,795
Gains/losses from financial instruments at FVPL	-	-	-	-	-	-	1,510	(706)	1,510	(706)
Rental income from investment properties & other operating leases	-	-	-	-	-	-	265	262	265	262
General administrative expenses	(248,891)	(250,692)	(33,967)	(37,722)	(5,008)	(4,801)	(2,013)	(2,359)	(289,879)	(295,574)
Gains/losses from derecognition of financial assets at AC	-	-	-	-	-	-	1	1	1	1
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	(16)	(2,643)	(16)	(2,643)
Impairment result from financial instruments	(13,033)	(12,259)	(95,490)	11,515	47	17	537	(372)	(107,939)	(1,099)
Other operating result	(24,904)	(847)	(3,807)	(1,420)	(1,693)	(656)	(10,397)	2,571	(40,801)	(352)
Levies on banking activities	(24,903)	(846)	(3,799)	(1,119)	(1,722)	(656)	(7,327)	(2,044)	(37,751)	(4,665)
Pre-tax result from continuing operations	**156,867**	**141,474**	**(25,882)**	**92,318**	**6,546**	**12,019**	**15,869**	**67,132**	**153,400**	**312,943**
Taxes on income	(32,919)	(29,710)	5,436	(19,387)	(1,375)	(2,524)	(9,909)	(21,894)	(38,767)	(73,515)
Net result for the period	**123,948**	**111,764**	**(20,446)**	**72,931**	**5,171**	**9,495**	**5,960**	**45,238**	**114,633**	**239,428**
Net result attributable to owners of the parent	**123,948**	**111,764**	**(20,446)**	**72,931**	**5,171**	**9,495**	**5,960**	**45,238**	**114,633**	**239,428**
Operating income	443,694	405,271	107,383	119,945	13,200	17,460	27,757	69,934	592,034	612,610
Operating expenses	(248,891)	(250,692)	(33,967)	(37,722)	(5,008)	(4,801)	(2,013)	(2,359)	(289,879)	(295,574)
Operating result	**194,803**	**154,579**	**73,416**	**82,223**	**8,192**	**12,659**	**25,744**	**67,575**	**302,155**	**317,036**
Risk-weighted assets (credit risk, eop)*	3,036,640	3,693,551	4,012,681	4,134,638	6,332	4,740	483,913	207,117	7,539,566	8,040,046
Average allocated capital**	419,823	462,059	361,790	453,948	5,682	5,218	306,054	353,128	1,093,349	1,274,353
Cost/income ratio	56.09%	61.86%	31.63%	31.45%	37.94%	27.50%	7.25%	3.37%	48.96%	48.25%
Return on allocated capital	29.52%	24.19%	-5.65%	16.07%	91.02%	181.95%	1.95%	12.81%	10.48%	18.79%
Total assets (eop)	10,782,824	11,447,922	4,300,739	4,577,766	19,455	76,465	5,644,723	7,043,535	20,747,741	23,145,688
Total liabilities excluding equity (eop)	13,182,843	14,021,083	1,508,373	1,683,274	310,261	348,205	3,986,260	5,067,094	18,987,737	21,119,656
Impairments	**(13,033)**	**(12,260)**	**(95,490)**	**11,515**	**47**	**17**	**537**	**(371)**	**(107,939)**	**(1,099)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(12,356)	(12,153)	(85,227)	19,847	36	17	537	(374)	(97,010)	7,337
Net impairment loss on commitments and guarantees given	(677)	(107)	(10,263)	(8,332)	11	-	-	3	(10,929)	(8,436)

* Credit RWA (eop) after intercompany transactions according to Pillar 1, calculated by Erste Group for the purpose of segment report and management purposes (without subsidiaries Credit RWA)

** Average allocated capital is calculated based on Erste Group controlling methodology.

2. Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments – Significant accounting policies'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relate to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments – Significant accounting policies'.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, negative interest on financial assets, lease liabilities, provisions recognised under IFRS 9 and IAS 37 (unwinding of the time value of the money effect due to passage of time) and net defined benefit plan liabilities (net interest cost on severance payments, pensions and jubilee obligations) under IAS 19.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, on debt securities in all measurement categories of financial assets, on trade and other receivables and on finance lease receivables. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities and interest paid on lease liabilities. Net interest income also includes interest on derivative financial instruments.

Interest income also includes modification gains and losses recognised on financial assets in Stage 1. Further, the unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

EUR ths.	2020	2021
Financial assets at AC	445,560	421,720
Demand deposits	9	4
Loans and advances	350,188	333,251
Debt securities	95,363	88,465
Interest income	**445,560**	**421,720**
Non-trading financial assets at FVPL	-	6
Financial assets HfT	15,152	14,959
Hedge accounting derivatives, interest rate risk	(9,409)	(8,290)
Other assets	5,431	4,992
Negative interest from financial liabilities	6,953	27,811
Other similar income	**18,127**	**39,478**
Interest and other similar income	**463,687**	**461,198**
Financial liabilities at AC	(21,580)	(18,202)
Deposits	(5,888)	(4,813)
Debt securities in issue	(15,692)	(13,389)
Interest expenses	**(21,580)**	**(18,202)**
Financial liabilities HfT	(13,245)	(12,869)
Hedge accounting derivatives, interest rate risk	5,581	7,163
Other liabilities	(34)	68
Negative Interest from financial assets	(361)	(9,066)
Other similar expenses	**(8,059)**	**(14,704)**
Interest and other similar expenses	**(29,639)**	**(32,906)**
Net interest income	**434,048**	**428,292**

An amount of EUR 6.4 million (2020: EUR 7.5 million) relating to impaired financial assets is included in interest income.

The amounts disclosed in the line items ‘Negative interest from financial liabilities’ and ‘Negative interest from financial assets’ relate to the interbank business, deposits and refinancing with central banks only.

Interest expenses on financial liabilities at amortised cost presented in line item ‘Negative interest from financial liabilities’ include also catch-up gains from TLTRO III in the amount of EUR 27.8 million (2020: EUR 0 million) a result of reassessment of expected eligibility for the reduced interest. For more details refer to Note 15 Financial liabilities at amortised costs.

Interest income from hedging instruments relates to the hedged items presented in the line item ‘Financial assets at amortised cost’. Interest expense from hedging instruments relates to the hedged items presented in the line item ‘Financial liabilities at amortised cost’.

3. Net fee and commission income

The Bank earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products, are recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

A contract with a customer that results in the recognition of a financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

EUR ths.	2020		2021	
	Income	Expenses	Income	Expenses
Securities	3,887	(1,415)	4,147	(828)
Issues	143	-	127	-
Transfer orders	1,828	(1,408)	991	(509)
Other	1,916	(7)	3,029	(319)
Custody	2,457	(1,300)	3,202	(1,840)
Collective investment	578	-	810	-
Other	1,879	-	2,392	-
Payment services	98,862	(15,524)	107,429	(10,356)
Card business	38,698	(11,467)	43,343	(6,858)
Other	60,164	(4,057)	64,086	(3,498)
Customer resources distributed but not managed	48,239	(1,190)	59,034	(91)
Collective investment	11,554	-	20,367	-
Insurance products (as agent)	36,674	(1,190)	38,643	(91)
Other	11	-	24	-
Lending Business	16,711	(3,581)	20,221	(5,078)
Guarantees given, guarantees received	4,029	(14)	4,619	(12)
Loan commitments given, loan commitments received	3,229	-	4,101	-
Other lending business	9,453	(3,567)	11,501	(5,066)
Other	367	(173)	582	(2,075)
Total fee and commission income and expenses	**170,523**	**(23,183)**	**194,615**	**(20,268)**
Net fee and commission income	**147,340**		**174,348**	

Collective investment in the line ´Customer resources distributed but not managed´ and custody fees relate to fees earned by the Bank on trust and other investment activities in which the Bank holds or invests assets on behalf of its customers and amount to EUR 13,762.4 million (2020: EUR 12,130.0 million).

4. Dividend income

EUR ths.	2020	2021
Non-trading financial assets at fair value through profit or loss	493	587
Financial assets at fair value through other comprehensive income	135	15
Financial assets at amortised cost	19	18
Dividend income	**647**	**620**

Dividend income is recognised when the right to receive the payment is established. This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at fair value through profit or loss and at fair value through other comprehensive income.

5. Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. Further, the net trading result includes any ineffective portions recorded in fair value hedge transactions. Also, foreign exchange gains and losses on all monetary assets and liabilities and from spot currency conversions are included here.

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Significant accounting policies, Accounting and measurement methods, Foreign currency translations, i. Transactions and balances in foreign currency. Detailed information relating to hedge accounting can be found in Note 19 Hedge accounting.

The Bank has adopted a business model of centralised financial markets trading in cooperation with its parent company. Within this model Erste Group Bank AG conducts all trading operations on a central trading book in order to manage effectively market risks from the Bank trading activities (i.e. transactions with retail, corporate and other institutional clients), with the exception of equity risk trading and transactions for the Bank's liquidity management purposes.

Trading gains from the market positions of Erste Group Bank AG are distributed according to the approved rules to local banks within the Bank based on their financial results and are reported in the income statement line item 'Net trading result'. The basic principle underlying these rules is that Erste Group Bank AG absorbs potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. This business model of financial markets trading also includes reallocation of trading costs to the participating subsidiaries of Erste Group Bank AG based on their cost/income ratio.

EUR ths.	2020	2021
Securities trading	1,492	1,662
Derivatives trading	6,393	8,191
Result from hedge accounting	339	(58)
Net trading result	**8,224**	**9,795**

The line item 'Securities trading' includes net gains from the Erste Group Bank AG's market positions attributable to the Bank.

6. Gains/losses from financial instruments measured at fair value through profit or loss

Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented under this line item. This concerns non-trading financial assets mandatorily measured at fair value through profit or loss.

EUR ths.	2020	2021
Result from measurement/sale of financial assets mandatorily at FVPL	(1,510)	(706)
Gains/losses from financial instruments measured at fair value through profit or loss	**(1,510)**	**(706)**

7. Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term. Operating expenses for investment properties are reported in line item 'Other operating result'. For further details we refer to Note 10 Other operating result.

Rental income is generated from rented premises classified as investment properties.

EUR ths.	2020	2021
Investment properties	265	262
Other operating leases	45	-
Rental income from investment properties & other operating leases	**310**	**262**

8. General administrative expenses

Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service costs for severance payments, pension and jubilee obligations and remeasurements of jubilee obligations. Furthermore, restructuring provision expenses may be part of personnel expenses.

Expense for defined contribution plans is presented under the line "Compulsory social security“ in the table below. Service costs related to pension and jubilee provisions was recognized in amount of EUR 0.5 million (2020: EUR 0.6 million), actuarial gain/loss for jubilee provision was recognized in amount of EUR 0.2 million – gain (2020: EUR 0.5 million – loss).

Detailed information about remuneration of management including performance-linked remuneration can be found in Note 38 Related-party transactions and principal shareholders.

As at 31 December 2021 the Bank had 3,632 employees, thereof four members of the Board of Directors. As at 31 December 2020 the Bank had 3,758 employees, thereof five members of the Board of Directors.

All employees of the Bank, who were employed for more than 6 months as of 31 December 2021, will receive free shares of Erste Group Bank AG in an amount equivalent to EUR 350 net, that the Bank is obliged to provide for its employees, provided that the Annual General Meeting of Erste Group Bank AG 2022 decides to distribute dividends. Therefore, based on the number of the entitled employees, personnel expenses in the amount of EUR 2.3 million as well as the corresponding other liability were recognized for this cash-settled shared-based payment.

Other administrative expenses

Other administrative expenses include primarily information technology expenses, expenses for office space, office operating and administrative expenses, advertising and marketing, and expenditures for legal and other consultants. Furthermore, the line item contains deposit insurance contributions. Restructuring provision expenses may also be presented in other administrative expenses.

Expenses for leases complying with recognition exemptions for short-term leases (less than 12 months) and leases of low-value items under IFRS 16 are disclosed in the category ´Other administrative expenses´ under the line item ´ Expenses for office space´ in total amount of EUR 0.7 million (2020: EUR 0.8 million).

The Bank is legally obliged to make a contribution to the Deposit Protection Fund, which is accounted for in accordance with the IFRIC 21. The amount of this annual contribution is calculated based on the Bank’s customer deposit liabilities. The contribution to the Deposit Protection Fund was paid in June 2021.

Depreciation and amortization

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets. In the line item ‘Depreciation and amortisation’, also the depreciation of right-of-use assets according to IFRS 16 is disclosed.

EUR ths.	2020	2021
Personnel expenses	**(157,554)**	**(154,482)**
Wages and salaries	(112,692)	(108,288)
Compulsory social security	(37,950)	(38,096)
Long-term employee provisions	(1,068)	(346)
Other personnel expenses	(5,844)	(7,752)
Other administrative expenses	**(92,589)**	**(104,273)**
Deposit insurance contribution	(1,058)	(9,426)
IT expenses	(43,612)	(48,069)
Expenses for office premises	(12,459)	(11,409)
Office operating and administrative expenses	(11,729)	(11,513)
Advertising/marketing	(14,247)	(14,541)
Legal and consulting costs	(3,322)	(3,087)
Sundry administrative expenses	(6,162)	(6,228)
Depreciation and amortisation	**(39,736)**	**(36,819)**
Software and other intangible assets	(11,117)	(7,448)
Owner occupied real estate	(19,968)	(20,560)
Investment properties	(215)	(206)
Office furniture and equipment and sundry property and equipment	(8,436)	(8,605)
General administrative expenses	**(289,879)**	**(295,574)**

9. Impairment result from financial instruments

Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies. The impairment result also includes recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2 and Stage 3 and POCI assets could be included in this line item. Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are presented as part of the impairment result.

Impairment result from financial instruments relates those instruments that are accounted under IFRS 9. Additional impairment results from financial instruments that are not accounted under IFRS 9 is disclosed in note 8.

EUR ths.	2020	2021
Financial assets at AC	(95,717)	6,876
Net allocation/release to credit loss allowances	(97,535)	10,314
Direct write-offs	(775)	(3,969)
Recoveries recorded directly to the income statement	2,593	531
Finance lease receivables	(1,293)	461
Net allocation/release to credit loss allowances	(1,314)	459
Direct write-offs	(7)	(10)
Recoveries recorded directly to the income statement	28	12
Credit loss allowances for loan commitments and financial guarantees given	(10,929)	(8,436)
Impairment result from financial instruments	**(107,939)**	**(1,099)**

The following table reconciles the movements of credit risk allowances disclosed in notes 13, 14, 33 and chapter Leases, part Finance lease receivables to Impairment result from financial instruments disclosed in Income statement. The reconciliation specifies items that represents movements in credit risk allowances that are not recognized through income statement.

EUR ths.	2020	2021
Net movements from notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**(57,662)**	**39,789**
Financial assets at amortised cost	(44,345)	49,605
Finance lease receivables	(1,242)	472
Trade and other receivables	(1,146)	(1,852)
Commitments and financial guarantees given	(10,929)	(8,436)
Items not recognized through income statement - use	**68,071**	**48,493**
Financial assets at amortised cost	65,987	48,038
Finance lease receivables	-	-
Trade and other receivables	2,084	455
Commitments and financial guarantees given	-	-
Items recognized through income statement – net allocations and releases	**(125,733)**	**(8,704)**
Financial assets at amortised cost	(110,332)	1,567
Finance lease receivables	(1,242)	472
Trade and other receivables	(3,230)	(2,307)
Commitments and financial guarantees given	(10,929)	(8,436)
Impairment result from financial instruments	**(107,939)**	**(1,099)**
Items reconciled to movements in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**(125,733)**	**(8,704)**
Net allocation of loss allowances	(114,804)	(268)
Net allocation of loss allowances for commitments and guarantees given	(10,929)	(8,436)
Items not recognized as movement in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**17,794**	**7,605**
Unwinding correction	15,976	11,041
Direct write-offs	(775)	(3,979)
Recoveries recorded directly to the income statement	2,593	543

10. Other operating result

The other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities.

In particular this includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets. Any impairment losses on goodwill are also included in this line item. The main reasons for impairment losses to be recognized are summarized hereinafter:

- not fully occupied buildings that triggered a lower recoverable amount
- recurring measurement for own used items of property at the balance sheet date and
- concessions and other intangibles for which measurable economic benefits are no longer expected in the future

In addition, the other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

Furthermore, levies on banking activities are considered as part of the other operating result. The Bank recognises a liability or a provision for the levy when the activity that triggers payment, as identified by the relevant legislation, occurs. In the statement of income levies are reported in under 'Other operating result'.

EUR ths.	2020	2021
Other operating expenses	**(50,874)**	**(32,835)**
Allocation to other provisions	(6,308)	(21,735)
Levies on banking activities	(37,751)	(4,665)
Banking tax	(33,757)	-
Recovery and resolution fund contributions	(3,994)	(4,665)
Other taxes	(167)	(148)
Other	(6,648)	(6,287)
Other operating income	**10,073**	**32,483**
Release of other provisions	5,884	17,343
Result from properties/movables/other intangible assets other than goodwill	221	1,800
Result from other operating expenses/income	3,968	13,340
Other operating result	**(40,801)**	**(352)**

Operating expenses (including repair and maintenance) for investment properties held for rental income totalled to EUR 0.0 million (2020: EUR 0.0 million).

Liquidation residue from liquidation of the subsidiary Služby SLSP, s. r. o. is presented in line item 'Result from other operating expenses/income' in the amount of EUR 11.0 million.

Levies on banking activities

In the line 'Recovery and resolution fund contributions' contributions to the national resolution funds in amount of EUR EUR 4.7 million (2020: EUR 4.0 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in a first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means of the resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore the resolution funds have to be built over a period of 10 years, during which the contributions shall be spread out as even as possible until the target level is reached.

Banking tax was cancelled from 1st January 2021 based on regulation No. 353/2020.

11. Taxes on income

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Accounting judgements, assumptions and estimates

The determination of tax bases are underlying a general level of uncertainty by nature, as interpretation of tax legislation might require judgement. Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used.

The following table reconciles the income taxes reported in the income statement to the pre-tax result from continuing operations multiplied by the nominal Slovak tax rate.

EUR ths.	2020	2021
Current tax expense / income	(52,540)	(65,251)
current period	(52,540)	(65,251)
Deferred tax expense / income	13,773	(8,264)
current period	13,773	(8,264)
Total	**(38,767)**	**(73,515)**

EUR ths.	2020	2021
Pre-tax result from continuing operations	153,401	312,943
Statutory tax rate	21%	21%
Income tax expense for the financial year at the Slovak statutory tax rate (21%)	32,214	65,719
Impact of tax-exempt earnings of investments and other tax-exempt income	(2,546)	(3,316)
thereof - Permanently tax-exempt (income) from dividends	(105)	(116)
thereof - Permanently tax-exempt (income) from revaluation of asset	(1,048)	(621)
thereof - Transaction from participation	-	(2,315)
thereof - Other	(1,393)	(264)
Tax increases due to non-deductible expenses, additional business tax and similar elements	9,117	11,144
thereof - Permanently non-deductible expenses with fines, penalties, litigations and similar topics	-	12
thereof - Permanent differences coming from financial assets	6,116	8,057
thereof - Permanent differences coming from other asset	791	1,124
thereof - Transaction from participation	-	33
thereof - Other	2,210	1,918
Tax expenses / earnings not attributable to the reporting period	(18)	(32)
Total	**38,767**	**73,515**

The following table shows the income tax effects relating to each component of other comprehensive income:

	2020			2021		
EUR ths.	Pre-tax amount	Income tax	Net-of-tax amount	Pre-tax amount	Income tax	Net-of-tax amount
Fair value reserve of equity instruments	10,690	(2,245)	8,445	-	-	-
Fair value reserve of debt instruments	-	-	-	-	-	-
Own credit risk reserve	-	-	-	-	-	-
Cash flow hedge reserve	-	-	-	-	-	-
Remeasurement of defined benefit plans	(1,014)	213	(799)	(74)	15	(58)
Currency reserve	-	-	-	-	-	-
Other comprehensive income	**9,676**	**(2,032)**	**7,646**	**(74)**	**15**	**(58)**

Taxes on income within other comprehensive income are influenced by the consideration of the result of recoverability assessments allocated against OCI-related deferred tax assets. The allocation of the result of recoverability assessments is based on the Bank’s methodology of allocating non-recoverable deferred tax assets per P&L and OCI. This approach proportionately reflects how the underlying temporary differences arose from IFRS-based adjustments of the accounting values of the related items.

Major components of deferred tax assets and deferred tax liabilities

EUR ths.	Tax assets 31.12.2020	Tax assets 31.12.2021	Tax liabilities 31.12.2020	Tax liabilities 31.12.2021	Net variance Through PL	Net variance Through OCI	Net variance Through other equity	Net variance Other	Total
Temporary differences related to the following items:									
Assets									
Financial assets at fair value through profit or loss	88	88	-	-	-	-	-	-	**-**
Financial assets at AC	63,059	52,129	-	-	10,929	-	-	-	**10,929**
Property, equipment and investment properties	-	-	(830)	(576)	(254)	-	-	-	**(254)**
RoU Assets	27	17	-	-	11	-	-	-	**11**
Other assets	1	-	-	-	1	-	-	-	**1**
Liabilities									**-**
Long-term employee provisions (tax valuation different)	1,600	1,591	-	-	24	(15)	-	-	**9**
Other provisions (tax valuation different)	3,743	5,560	-	-	(1,817)	-	-	-	**(1,817)**
Other liabilities	7,978	8,823	-	-	(840)	-	-	(6)	**(846)**
Total deferred tax	**76,496**	**68,208**	**(830)**	**(576)**	**8,054**	**(15)**	**-**	**(6)**	**8,033**
Tax loss carried forward	-	631	-	-	-	-	-	(631)	**(631)**
Total deferred taxes	**75,666**	**67,843**	**-**	**-**	**8,264**	**(15)**	**-**	**(426)**	**7,823**
Current taxes	**-**	**-**	**(21,908)**	**(2,193)**	**65,251**	**-**	**-**	**-**	**65,251**
Total taxes	**75,666**	**67,843**	**(21,908)**	**(2,193)**	**73,515**	**(15)**	**-**	**(426)**	**73,074**

EUR ths.	Tax assets 31.12.2019	Tax assets 31.12.2020	Tax liabilities 31.12.2019	Tax liabilities 31.12.2020	Through PL (Net variance)	Through OCI (Net variance)	Through other equity (Net variance)	Other (Net variance)	Total
Temporary differences related to the following items:									
Assets									
Financial assets at fair value through profit or loss	-	88	-	-	(88)	-	-	-	**(88)**
Financial assets at AC	51,014	63,059	-	-	(12,044)	-	-	-	**(12,044)**
Property, equipment and investment properties	-	-	(1,143)	(830)	(313)	-	-	-	**(313)**
RoU Assets	75	27	-	-	47	-	-	-	**47**
Other assets	12	1	-	-	11	-	-	-	**11**
Liabilities									**-**
Long-term employee provisions (tax valuation different)	1,249	1,600	-	-	(139)	(213)	-	-	**(352)**
Other provisions (tax valuation different)	1,454	3,743	-	-	(2,289)	-	-	-	**(2,289)**
Other liabilities	8,771	7,978	-	-	793	-	-	-	**793**
Total deferred tax	**62,575**	**76,496**	**(18,589)**	**(830)**	**(13,934)**	**1,844**	**(19,592)**	**-**	**(31,682)**
Tax loss carried forward	162	-	-	-	162	-	-	-	**162**
Total deferred taxes	**44,146**	**75,666**	**-**	**-**	**(13,772)**	**1,844**	**(19,592)**	**-**	**(31,520)**
Current taxes	**-**	**-**	**(2,076)**	**(21,908)**	**52,540**	**-**	**-**	**-**	**52,540**
Total taxes	**44,146**	**75,666**	**(2,076)**	**(21,908)**	**38,768**	**1,844**	**(19,592)**	**-**	**21,020**

The Bank's separate deferred tax asset position in amount of EUR 67.8 million as of 31 December 2021 (2020: EUR 75.7 million) is expected to be recoverable in the foreseeable future. These expectations result from year-end recoverability assessments undertaken by the Bank's entities, either at individual level, or at relevant tax group level. Such assessments are comparing net temporary deductible differences and available fiscal losses at year-end - after offsetting with deferred tax liabilities at individual level or at relevant tax group level - with fiscal profit forecasts for a group-wide unified and unchanged time horizon of a maximum 5 years depending on the fiscal jurisdiction and applicable facts and circumstances. If the result of these assessments is negative, the deferred tax asset positions are correspondingly not recorded and the already existing deferred tax asset positions are correspondingly decreased.

FINANCIAL INSTRUMENTS – SIGNIFICANT ACCOUNTING POLICIES

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortized cost of the financial liability. The estimated cash flows consider all the contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ('POCI', see part 'Impairment of financial instruments'), credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets that are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets that are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset were sold or paid if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 18 Fair value of financial instruments.

Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

(i) The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

Application of these criteria leads to classification of financial assets into three measurement categories described in the respective note.

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit or loss

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss. Further details on financial liabilities at amortised cost are in the respective Note 15 Financial liabilities at amortised costs.

Impairment of financial instruments

The Bank recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at fair value through profit or loss, its lease receivables, and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.

The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- 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.

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income, the Bank distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Bank generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset.

More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 25 Credit risk.

For financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at fair value through other comprehensive income, the loss allowance is recognised in the accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity and under 'Retained earnings and other reserves' in the statement of financial position. Loss allowances for loan commitments and financial guarantees are presented under the statement of financial position line item 'Provisions'.

For financial assets that are credit-impaired at initial recognition (POCI financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.
In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments are presented in the line item 'Impairment result from financial instruments'.

Write-offs

The Bank writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.
The Bank has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the bank contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance (normally this relates to going concern scenarios for corporate customers). In gone concern scenarios with corporate customers, write-offs of the unrecoverable exposure parts are triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case). Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost. For retail customers, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. Residual uncollectable balances are written off after the collection process.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
    - it has transferred substantially all risks and rewards connected with ownership of the asset; or
    - has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at fair value through other comprehensive income, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at fair value through profit or loss the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Bank may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, the Bank has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Commercial renegotiations fulfilling specific conditions do not trigger the modification significance assessment. Instead, they result in a recalculation of the EIR of related loans. Such a renegotiation must relate to a performing non-forborne lending agreement. It is initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. As a result, the bank renegotiates the terms and conditions because of a threat that the customer could otherwise refinance the loan with another bank. Such conditions introduce an implicit floating rate element to the contract. This kind of renegotiation rarely applies to loan assets in Stage 2.

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include following events:

- change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); and
- removal of a non-SPPI contractual feature.

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors. On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures or they are applied to customers in default or they trigger default (i.e. the derecognition occurs if the modification does not relate to financial difficulties):

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and at least two years compared to the original asset; or
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months);

If contractual modifications that qualify as forbearance measures or they are applied to customers in default or they trigger default (i.e. they relate to customers in financial difficulties) are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:

- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item 'Interest income' under 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'. The remaining difference is presented in the line 'Gains/losses from derecognition of financial assets measured at amortised cost'.

For financial assets measured at fair value through profit or loss, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in ‘Gains/losses from financial instruments measured at fair value through profit or loss’.

For debt instrument assets not measured at fair value through profit or loss that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original EIR. In the statement of income, the modification gain or loss is presented in the line ‘Interest income’ under ‘Net interest income’ if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line ‘Impairment result from financial instruments’. However, to the extent that the contractual modification involves the bank giving up its rights of collecting cash flows in respect of an outstanding amount of the asset, such as waiving (part of) principal or accrued interest amount, it is treated as a write-off.

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line ‘Other gains/losses from financial instruments not measured at fair value through profit or loss‘, ‘Gains/losses from financial instruments measured at fair value through profit or loss’ and ‘Net trading result’ depending on the measurement category of the derecognised financial liability.

Accounting judgements, assumptions and estimates

i. SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process, as they determine whether the asset must be measured at fair value through profit or loss or, depending on the business model assessment, at amortised cost or at fair value through other comprehensive income. When taking into consideration specific features of loans in the business of the Bank, significant areas of judgement are prepayment fees, project financing loans and the benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, the Bank uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis, such as common market practice regarding the level of prepayment fees and their acceptance by authorities.

For project financing loans the Bank assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect, credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

Interest mismatches features relate to floating rate financial assets where: - the reference rate’s (such as Euribor) tenor is different to the rate reset frequency, - time lags arise from interest rates fixed prior to the start of the interest period, or combinations of these features. For this purpose, the Bank has developed a so called ‘benchmark test’ to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from a benchmark deal which does not have the interest mismatch feature.

Performing the quantitative benchmark test was particularly important upon transition to IFRS 9 as at 1 January 2018 for the portfolio existing at that time. Subsequently, the issuance of new loans with interest mismatch features was largely restricted so that a quantitative benchmark test applies only in exceptional cases.

ii. Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Bank must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realized differently than originally expected, and a different measurement method may seem to be appropriate. In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Bank, certain sales or other derecognition events are considered as not contradicting the held to collect contractual cash flows business model. Examples are sales due to increases in credit risk, sales close to financial assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) or derecognitions resulting from replacements of bonds based on an issuer's offer. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively, and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Bank performs a prospective test. If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.

iii. Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, bank has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life of revolving credit facilities.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 25 Credit risk. The development of loan loss provisions is described in, Note 13 Financial assets at amortised cost, Note 14 Trade and other receivables and in chapter Leases, part Finance lease receivables.

FINANCIAL INSTRUMENTS HELD AT AMORTISED COST

Financial assets are classified as measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables' and 'Cash and cash balances'.

Interest income on these assets is calculated by effective interest method and is included under the line 'Interest income' under 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At the Bank, financial assets at amortised cost constitute the largest measurement category, which includes loan business to customers, interbank lending business (including reverse repo transactions), deposits with central banks, investments in debt securities, amounts in the course of settlement, trade and other receivables and cash and cash equivalents.

For description of financial liabilities measured at amortised cost refer to Note 15.

12. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

A part of 'Cash balances at central banks' represents the mandatory minimum reserve requirement deposits which amounted to EUR 2,484.0 million (2020: EUR 1,354.1 million) at the reporting date. The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

For the purpose of the Statement of cash flows, cash and cash equivalents include accounts with central banks and accounts with other credit institutions repayable on demand. The mandatory minimum reserve deposit is excluded from cash and cash equivalents. This deposit is repayable on demand, however it is not used for a day-to-day operation, as the Bank is required to meet a defined average balance during a monitored period.

EUR ths.	31.12.2020	31.12.2021
Cash on hand	352,330	413,763
Cash balances at central banks	1,354,133	2,483,999
Other demand deposits at credit institutions	11,023	9,658
Cash and cash balances	**1,717,486**	**2,907,420**

13. Financial assets at amortised cost

Debt securities

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield generating activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model, see paragraph 'Business model assessment' in chapter 'Financial instruments - Significant accounting policies'.

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	3,604,711	-	-	-	3,604,711	(485)	-	-	-	(485)	3,604,226
Credit institutions	180,114	-	-	-	180,114	(155)	-	-	-	(155)	179,959
Other financial corporations	25,309	-	-	-	25,309	(36)	-	-	-	(36)	25,273
Non-financial corporations	93,394	9,366	-	-	102,760	(86)	(474)	-	-	(560)	102,200
Total	**3,903,528**	**9,366**	**-**	**-**	**3,912,894**	**(762)**	**(474)**	**-**	**-**	**(1,236)**	**3,911,658**

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	3,371,752	-	-	-	3,371,752	(283)	-	-	-	(283)	3,371,469
Credit institutions	182,974	-	-	-	182,974	(113)	-	-	-	(113)	182,861
Other financial corporations	10,131	-	-	-	10,131	(21)	-	-	-	(21)	10,110
Non-financial corporations	115,393	-	-	-	115,393	(129)	-	-	-	(129)	115,264
Total	**3,680,250**	**-**	**-**	**-**	**3,680,250**	**(546)**	**-**	**-**	**-**	**(546)**	**3,679,704**

Movement in credit loss allowances

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	(545)	(31)	29	408	(623)	-	-	-	(762)
Stage 2	-	-	-	(373)	(101)	-	-	-	(474)
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of debt securities	**(545)**	**(31)**	**29**	**35**	**(724)**	**-**	**-**	**-**	**(1,236)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	(384)	(44)	7	-	(125)	-	-	-	(546)
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of debt securities	**(384)**	**(44)**	**7**	**-**	**(125)**	**-**	**-**	**-**	**(546)**

In column ‘Additions’ increases of credit loan allowances due to the initial recognition of debt securities at amortised cost during the current reporting period are disclosed. Releases of credit loan allowances following the derecognition of the related debt securities at amortised cost are reported in column ‘Derecognitions’.

In column ‘Transfers between stages’ credit loan allowance net changes due to changes in credit risk that triggered re-assignments of the related amortised cost debt securities from Stage 1 (at 1 January 2021 or initial recognition date) to Stages 2 or 3 at 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related credit loss allowances are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related credit loss allowances are favourable and presented in line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related credit loss allowance amounts recognized prior to stage re-assignments are presented above in column ‘Other changes in credit risk (net)’.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’.

The year-end total gross carrying amounts of amortised cost debt securities that were initially recognized (purchased) during the year 2021 and not fully derecognized by 31 December 2021 amounts to EUR 410.2 million (2020: EUR 531.7 million). The gross carrying amounts of amortised cost debt securities that were held at 1 January 2021 and derecognized during the year 2021 amounts to EUR 160.9 million (2020: EUR 377.0 million).

Loans and advances to banks

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
Central banks	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	50,023	2	-	-	50,025	(42)	-	-	-	(42)	49,983
Total	**50,023**	**2**	**-**	**-**	**50,025**	**(42)**	**-**	**-**	**-**	**(42)**	**49,983**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2021.

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
Central banks	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	47	2	-	-	49	-	-	-	-	-	49
Total	**47**	**2**	**-**	**-**	**49**	**-**	**-**	**-**	**-**	**-**	**49**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2020.

Movement in credit loss allowances

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	-	(76)	21	-	13	-	-	-	(42)
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of loans and advances to banks	**-**	**(76)**	**21**	**-**	**13**	**-**	**-**	**-**	**(42)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-
Total credit loss allowances of loans and advances to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

In column ‘Additions’ increases of credit loss allowance due to the initial recognition of loans and advances to banks at Amortised cost during the current reporting period are disclosed. Releases of credit loss allowance following the derecognition of the related loans and advances to banks at Amortised cost are reported in column ‘Derecognitions’. Any changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’.

The year-end total gross carrying amounts of amortised cost loans and advances to banks that were initially recognized during the year 2021 and not fully de-recognized by 31 December 2021 amounts to EUR 50.0 million (2020: EUR 0.0 million). The c gross carrying amounts of amortised cost loans and advances to banks that were held as of 1 January 2021 and fully de-recognized during the year 2021 amounts to EUR 0.0 million (2020: EUR 0.0 million).

Loans and advances to customer

Gross carrying amounts and credit loss allowances per impairment buckets

The following table represents gross carrying amounts and credit loss allowances per impairment buckets by sector of loans and advances to customers.

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
General governments	284,882	529	-	-	285,411	(411)	(16)	-	-	(427)	284,984
Other financial corporations	82,297	40,670	49	20	123,036	(317)	(2,610)	(36)	(1)	(2,964)	120,072
Non-financial corporations	2,606,543	1,366,633	68,644	67,929	4,109,749	(13,822)	(70,896)	(36,292)	(20,169)	(141,179)	3,968,570
Households	10,637,287	517,873	209,916	3,774	11,368,850	(25,309)	(37,192)	(121,330)	(1,749)	(185,580)	11,183,270
Total	**13,611,009**	**1,925,705**	**278,609**	**71,723**	**15,887,046**	**(39,859)**	**(110,714)**	**(157,658)**	**(21,919)**	**(330,150)**	**15,556,896**

The amounts represent the maximum exposure to credit risk. As at 31 December 2021 the Bank had no reverse repo agreements.

As at 31 December 2021, 15 largest customers accounted for 5.3% of the gross loan portfolio amounting to EUR 819.0 million.

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
General governments	270,863	1,063	-	-	271,926	(368)	(40)	-	-	(408)	271,518
Other financial corporations	78,647	25,825	99	1	104,572	(380)	(787)	(60)	-	(1,227)	103,345
Non-financial corporations	2,286,561	1,413,659	56,949	80,179	3,837,348	(10,595)	(74,321)	(33,579)	(55,646)	(174,141)	3,663,207
Households	9,677,417	860,601	230,737	3,597	10,772,352	(18,515)	(51,826)	(132,663)	(1,707)	(204,711)	10,567,641
Total	**12,313,488**	**2,301,148**	**287,785**	**83,777**	**14,986,198**	**(29,858)**	**(126,974)**	**(166,302)**	**(57,353)**	**(380,487)**	**14,605,711**

As at 31 December 2020, 15 largest customers accounted for 5.8% of the gross loan portfolio amounting to EUR 863.9 million.

The following table represents gross carrying amounts and credit loss allowances per impairment buckets by asset classes of loans and advances to customers.

EUR ths.	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
Lending for house purchase	8,895,446	325,032	138,977	1,921	9,361,376	(18,419)	(21,341)	(65,073)	(459)	(105,292)	9,256,084
Credit for consumption	1,213,054	147,615	61,328	178	1,422,175	(5,960)	(13,380)	(48,420)	(76)	(67,836)	1,354,339
Corporate loans and others	3,502,509	1,453,058	78,303	69,625	5,103,495	(15,481)	(75,992)	(44,165)	(21,384)	(157,022)	4,946,473
Total	**13,611,009**	**1,925,705**	**278,608**	**71,724**	**15,887,046**	**(39,860)**	**(110,713)**	**(157,658)**	**(21,919)**	**(330,150)**	**15,556,896**

EUR ths.	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
Lending for house purchase	7,927,684	550,414	138,640	1,634	8,618,372	(14,481)	(29,516)	(61,976)	(141)	(106,114)	8,512,258
Credit for consumption	1,247,428	257,796	82,135	201	1,587,560	(3,020)	(18,441)	(62,702)	(85)	(84,248)	1,503,312
Corporate loans and others	3,138,376	1,492,939	67,009	81,942	4,780,266	(12,357)	(79,017)	(41,623)	(57,128)	(190,125)	4,590,141
Total	**12,313,488**	**2,301,149**	**287,784**	**83,777**	**14,986,198**	**(29,858)**	**(126,974)**	**(166,301)**	**(57,354)**	**(380,487)**	**14,605,711**

Movement in credit loss allowances

The following table represents movement in credit loss allowances by sector of loans and advances to customers.

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	**(29,858)**	**(29,766)**	**1,563**	**18,855**	**(876)**	**-**	**223**	**-**	**(39,859)**
General governments	(368)	(191)	13	40	95	-	-	-	(411)
Other financial corporations	(380)	(249)	4	23	285	-	-	-	(317)
Non-financial corporations	(10,595)	(24,081)	687	978	19,189	-	1	-	(13,821)
Households	(18,515)	(5,245)	859	17,814	(20,445)	-	222	-	(25,310)
Stage 2	**(126,974)**	**(4,709)**	**1,403**	**(22,595)**	**41,966**	**-**	**195**	**-**	**(110,714)**
General governments	(40)	(4)	-	(9)	36	-	-	-	(17)
Other financial corporations	(787)	-	-	(928)	(895)	-	-	-	(2,610)
Non-financial corporations	(74,321)	(4,066)	768	(9,031)	15,750	-	4	-	(70,896)
Households	(51,826)	(639)	635	(12,627)	27,075	-	191	-	(37,191)
Stage 3	**(166,302)**	**(1,069)**	**48,720**	**(4,025)**	**(43,580)**	**-**	**8,598**	**-**	**(157,658)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(60)	-	31	-	(7)	-	-	-	(36)
Non-financial corporations	(33,579)	(713)	12,734	(494)	(16,428)	-	2,188	-	(36,292)
Households	(132,663)	(356)	35,955	(3,531)	(27,145)	-	6,410	-	(121,330)
POCI	**(57,353)**	**-**	**271**	**-**	**34,286**	**-**	**877**	**-**	**(21,919)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	(1)	-	-	-	(1)
Non-financial corporations	(55,646)	-	79	-	34,911	-	488	-	(20,168)
Households	(1,707)	-	192	-	(624)	-	389	-	(1,750)
Total credit loss allowances of loans and advances to customers	**(380,487)**	**(35,544)**	**51,957**	**(7,765)**	**31,796**	**-**	**9,893**	**-**	**(330,150)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	**(34,323)**	**(19,343)**	**917**	**14,842**	**7,825**	**-**	**222**	**-**	**(29,860)**
General governments	(249)	(354)	-	120	113	-	-	-	(370)
Other financial corporations	(287)	(156)	1	299	(236)	-	-	-	(379)
Non-financial corporations	(8,455)	(12,520)	220	2,212	7,947	-	1	-	(10,595)
Households	(25,332)	(6,313)	696	12,211	1	-	221	-	(18,516)
Stage 2	**(36,177)**	**(27,588)**	**625**	**(58,465)**	**(5,600)**	**-**	**233**	**-**	**(126,972)**
General governments	(22)	(1)	-	(9)	(6)	-	-	-	(38)
Other financial corporations	(68)	(12)	-	(543)	(165)	-	-	-	(788)
Non-financial corporations	(11,649)	(22,805)	301	(34,434)	(5,738)	-	4	-	(74,321)
Households	(24,438)	(4,770)	324	(23,479)	309	-	229	-	(51,825)
Stage 3	**(212,655)**	**(5,373)**	**54,203**	**(6,385)**	**(5,081)**	**-**	**8,989**	**-**	**(166,302)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(76)	(4)	23	-	(3)	-	-	-	(60)
Non-financial corporations	(24,500)	(2,925)	5,210	(1,886)	(11,434)	-	1,956	-	(33,579)
Households	(188,079)	(2,444)	48,970	(4,499)	6,356	-	7,033	-	(132,663)
POCI	**(53,149)**	**-**	**1,493**	**-**	**(8,509)**	**-**	**2,812**	**-**	**(57,353)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(50,957)	-	1,238	-	(8,370)	-	2,443	-	(55,646)
Households	(2,192)	-	255	-	(139)	-	369	-	(1,707)
Total credit loss allowances of loans and advances to customers	**(336,304)**	**(52,304)**	**57,238**	**(50,008)**	**(11,365)**	**-**	**12,256**	**-**	**(380,487)**

The following table represents movement in credit loss allowances by asset classes of loans and advances to customers.

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	**(29,860)**	**(29,766)**	**1,563**	**18,855**	**(875)**	**-**	**223**	**-**	**(39,860)**
Lending for house purchase	(14,480)	(260)	113	13,439	(17,256)	-	25	-	(18,419)
Credit for consumption	(3,020)	(2,821)	35	3,874	(4,217)	-	189	-	(5,960)
Corporate loans and others	(12,359)	(26,685)	1,415	1,542	20,597	-	9	-	(15,481)
Stage 2	**(126,972)**	**(4,709)**	**1,403**	**(22,595)**	**41,965**	**-**	**195**	**-**	**(110,713)**
Lending for house purchase	(29,515)	(39)	144	(8,135)	16,204	-	-	-	(21,341)
Credit for consumption	(18,440)	(4)	61	(3,676)	8,538	-	141	-	(13,380)
Corporate loans and others	(79,016)	(4,666)	1,198	(10,784)	17,222	-	54	-	(75,992)
Stage 3	**(166,302)**	**(1,069)**	**48,720**	**(4,026)**	**(43,579)**	**-**	**8,598**	**-**	**(157,658)**
Lending for house purchase	(61,976)	(20)	5,908	(2,414)	(8,739)	-	2,168	-	(65,073)
Credit for consumption	(62,702)	(19)	36,062	(910)	(24,693)	-	3,842	-	(48,420)
Corporate loans and others	(41,624)	(1,030)	6,750	(702)	(10,147)	-	2,588	-	(44,165)
POCI	**(57,353)**	**-**	**270**	**-**	**34,287**	**-**	**877**	**-**	**(21,919)**
Lending for house purchase	(141)	-	-	-	(308)	-	-	-	(459)
Credit for consumption	(85)	-	2	-	(18)	-	26	-	(76)
Corporate loans and others	(57,127)	-	268	-	34,624	-	851	-	(21,384)
Total credit loss allowances of loans and advances to customers	**(380,487)**	**(35,544)**	**51,956**	**(7,766)**	**31,798**	**-**	**9,893**	**-**	**(330,150)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	**(34,323)**	**(19,343)**	**917**	**14,842**	**7,825**	**-**	**222**	**-**	**(29,860)**
Lending for house purchase	(12,229)	(216)	42	8,490	(10,580)	-	13	-	(14,480)
Credit for consumption	(11,337)	(3,567)	42	3,772	7,874	-	196	-	(3,020)
Corporate loans and others	(10,757)	(15,560)	833	2,580	10,532	-	13	-	(12,359)
Stage 2	**(36,177)**	**(27,588)**	**625**	**(58,465)**	**(5,600)**	**-**	**233**	**-**	**(126,972)**
Lending for house purchase	(10,343)	(13)	14	(13,821)	(5,352)	-	-	-	(29,515)
Credit for consumption	(12,166)	(4)	23	(8,492)	2,034	-	165	-	(18,440)
Corporate loans and others	(13,668)	(27,571)	588	(36,152)	(2,281)	-	68	-	(79,016)
Stage 3	**(212,655)**	**(5,373)**	**54,203**	**(6,385)**	**(5,081)**	**-**	**8,989**	**-**	**(166,302)**
Lending for house purchase	(80,259)	(3)	5,701	(2,430)	14,050	-	965	-	(61,976)
Credit for consumption	(97,519)	(28)	44,130	(1,835)	(12,942)	-	5,492	-	(62,702)
Corporate loans and others	(34,877)	(5,342)	4,372	(2,120)	(6,189)	-	2,532	-	(41,624)
POCI	**(53,149)**	**-**	**1,493**	**-**	**(8,509)**	**-**	**2,812**	**-**	**(57,353)**
Lending for house purchase	(308)	-	-	-	167	-	-	-	(141)
Credit for consumption	(172)	-	38	-	12	-	37	-	(85)
Corporate loans and others	(52,669)	-	1,455	-	(8,688)	-	2,775	-	(57,127)
Total credit loss allowances of loans and advances to customers	**(336,304)**	**(52,304)**	**57,238**	**(50,008)**	**(11,365)**	**-**	**12,256**	**-**	**(380,487)**

In column ‘Additions’ increases of credit loss allowance due to the initial recognition of loans and advances to customers at amortised cost during the current reporting period are disclosed. Credit loss allowances recognized against drawings from non-revolving loan commitments are deemed as additions for the purpose of presenting current period’s movement in credit loss allowance. Therefore, additions in Stages 2 and 3 reflect transfers from Stage 1 having occurred between commitment and drawing dates of related credit facilities. Releases of credit loss allowance following the derecognition of the related loans and advances to customers at amorised cost are reported in column ‘Derecognitions’.

In column ‘Transfers between stages’ credit loss allowance net changes due to changes in credit risk that triggered re-assignments of the related loans and advances to customers at amortised cost from Stage 1 at 1 January 2021 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related credit loss allowances are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related credit loss allowances are favourable (incremental year-on-year releases) and presented in line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related credit loss allowance amounts recognized prior to stage re-assignments are presented above in column ‘Other changes in credit risk (net)’.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’. This column also captures the passage-of-time adverse effect (‘unwinding correction’) over the lifetime expected cash shortfalls of loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers.

The column ‘Insignificant modifications (net)’ reflects the effect on credit loss allowance arising from contractual modifications of loans and advances to customers at amortised cost which do not trigger their full derecognition. The use of credit loss allowance triggered by full or partial write-offs of amortised cost loans and advances to customers is reported in column ‘Write-offs’.

One significant driver of the credit loss allowance movements for the year has been the transfer of the related instruments across different impairment stages. The year-end gross carrying amount of amortised cost loans and advances to customers that were assigned at 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
EUR ths.	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2021								
General governments	529	857	-	-	-	-	-	-
Other financial corporations	22,796	1,871	-	-	-	-	-	-
Non-financial corporations	475,208	307,237	31,969	699	4,376	740	-	-
Households	230,135	365,945	58,543	10,323	18,972	11,184	-	-
Total	**728,668**	**675,910**	**90,512**	**11,022**	**23,348**	**11,924**	**-**	**-**
2020								
General governments	534	120	-	-	-	-	-	-
Other financial corporations	25,524	16	26	-	-	-	-	-
Non-financial corporations	1,222,657	14,377	6,783	588	23,936	604	-	-
Households	705,694	45,675	24,811	29,690	32,084	13,697	-	-
Total	**1,954,409**	**60,188**	**31,620**	**30,278**	**56,020**	**14,301**	**-**	**-**

Detailed information on stage transfers due to COVID-19 measures are described in Note 25 Credit risk.

The year-end total gross carrying amount of the amortised cost loans and advances to customers that were initially recognized during the reporting period and not fully de-recognized by 31 December 2021 amounts to EUR 4,233.2 million (2020: EUR 3,867.4 million). The gross carrying amount of the amortised cost loans and advances to customers that were held at 1 January 2021 and fully de-recognized during the reporting period amounts to EUR 1,711.7 million (2020: EUR 2,117.9 million).

Mandate loans

During the year 2021 the Bank cooperated with 5 external companies (2020: 5 companies). Based on the mandate contracts the management and administration of certain non-performing receivables is outsourced to the external company temporary. In case of mandate loans, the Bank maintains risks and rewards associated with the underlying exposures. External service providers are rewarded by commission from the claimed amount of loans, which are subject to the mandate contracts.

As at 31 December 2021 the total amount of gross loans outsourced was EUR 87.4 million (2020: EUR 94.4 million).

Write off and sale of receivables

During the year 2021 the Bank sold loan receivables in the amount of EUR 56.3 million (2020: EUR 61.2 million) for a consideration of EUR 15.0 million (2020: EUR 9.2 million) and used the corresponding allowances amounting EUR 38.1 million (2020: EUR 53.7 million). Once loan receivables are sold, the Bank transfers all risks and rewards attributable to them and does not have any continuing involvement in the loan receivables subsequent to their sale.

In the year 2021 the Bank has written off loans and finance lease receivables in the amount EUR 11.1 million (2020: EUR 15.1 million) and used the respective allowances amounting EUR 10.3 million (2020: EUR 14.3 million).

14. Trade and other receivables

The trade and other receivables comprise receivables from factoring transactions and other trade receivables.

Gross carrying amounts and credit loss allowances

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2021											
General governments	521	-	-	-	521	(1)	-	-	-	(1)	520
Credit institutions	1,857	-	-	-	1,857	-	-	-	-	-	1,857
Other financial corporations	2,457	-	-	-	2,457	(48)	-	-	-	(48)	2,409
Non-financial corporations	124,665	1,158	4,860	-	130,683	(1,790)	(3)	(4,747)	-	(6,540)	124,143
Households	1	-	-	-	1	-	-	-	-	-	1
Total	**129,501**	**1,158**	**4,860**	**-**	**135,519**	**(1,839)**	**(3)**	**(4,747)**	**-**	**(6,589)**	**128,930**

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
As of 31.12.2020											
General governments	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	2,013	-	-	-	2,013	-	-	-	-	-	2,013
Other financial corporations	1,623	41	-	-	1,664	(12)	(1)	-	-	(13)	1,651
Non-financial corporations	76,822	1,435	3,968	-	82,225	(423)	(8)	(3,861)	-	(4,292)	77,933
Households	-	-	431	-	431	-	-	(431)	-	(431)	-
Total	**80,458**	**1,476**	**4,399**	**-**	**86,333**	**(435)**	**(9)**	**(4,292)**	**-**	**(4,736)**	**81,597**

Movement in credit loss allowances

EUR ths.	01.01.2021	Additions	Derecognitions	Other changes in credit risk (net)	Transfers between stages	Insignificant modifications (net)	Write offs	Other	31.12.2021
Stage 1	**(435)**	**(1,666)**	**-**	**263**	**-**	**-**	**-**	**-**	**(1,838)**
General governments	-	(1)	-	-	-	-	-	-	(1)
Other financial corporations	(12)	(42)	-	6	-	-	-	-	(48)
Non-financial corporations	(423)	(1,623)	-	257	-	-	-	-	(1,789)
Stage 2	**(9)**	**-**	**-**	**5**	**-**	**-**	**-**	**-**	**(4)**
Other financial corporations	(1)	-	-	1	-	-	-	-	-
Non-financial corporations	(8)	-	-	4	-	-	-	-	(4)
Stage 3	**(4,292)**	**-**	**-**	**(553)**	**(357)**	**-**	**455**	**-**	**(4,747)**
Non-financial corporations	(3,861)	-	-	(553)	(357)	-	24	-	(4,747)
Households	(431)	-	-	-	-	-	431	-	-
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(4,736)**	**(1,666)**	**-**	**(285)**	**(357)**	**-**	**455**	**-**	**(6,589)**

Movement table of credit loss allowances above represents changes in allowances disclosed based on the reason of the change and is prepared as at the end of the reporting period in comparison to the balance as at 1 January of the relevant reporting period. The table contains allocations, releases, reclassifications between stages as well as use of the credit loss allowances. Reconciliation of such movements to income statement line „Impairment result from financial instruments“ is disclosed in note 9.

Detail description of columns from the above table are disclosed in the note 13 Financial assets at amortised cost.

EUR ths.	01.01.2020	Additions	Derecognitions	Other changes in credit risk (net)	Transfers between stages	Insignificant modifications (net)	Write offs	Other	31.12.2020
Stage 1	**(194)**	**(492)**	**-**	**251**	**-**	**-**	**-**	**-**	**(435)**
Other financial corporations	-	(7)	-	(4)	-	-	-	-	(11)
Non-financial corporations	(194)	(468)	-	238	-	-	-	-	(424)
Households	-	(17)	-	17	-	-	-	-	-
Stage 2	**(2)**	**-**	**-**	**(2)**	**(5)**	**-**	**-**	**-**	**(9)**
Other financial corporations	-	-	-	-	(1)	-	-	-	(1)
Non-financial corporations	(2)	-	-	(2)	(4)	-	-	-	(8)
Stage 3	**(3,394)**	**-**	**8**	**(2,968)**	**(22)**	**-**	**2,084**	**-**	**(4,292)**
Other financial corporations	(8)	-	8	-	-	-	-	-	-
Non-financial corporations	(2,972)	-	-	(2,950)	(22)	-	2,084	-	(3,860)
Households	(414)	-	-	(18)	-	-	-	-	(432)
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(3,590)**	**(492)**	**8**	**(2,719)**	**(27)**	**-**	**2,084**	**-**	**(4,736)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2020	2021
Transfers between Stage 1 and Stage 2	**1,448**	**1,158**
To Stage 2 from Stage 1	1,448	1,158
To Stage 1 from Stage 2	-	-
Transfers between Stage 2 and Stage 3	**-**	**121**
To Stage 3 from Stage 2	-	121
To Stage 2 from Stage 3	-	-
Transfers between Stage 1 and Stage 3	**1,022**	**749**
To Stage 3 from Stage 1	1,022	749
To Stage 1 from Stage 3	-	-

15. Financial liabilities at amortised costs

The line item ‘Financial liabilities at amortised cost’ is further broken down into ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.

Interest expenses incurred are calculated using effective interest method are reported in the line item ‘Interest expenses’ under ‘Net interest income’ in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item ‘Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss’.

Deposits from banks

EUR ths.	31.12.2020	31.12.2021
Overnight deposits	3,859	3,827
Term deposits	1,655,547	2,889,520
Repurchase agreements	50,849	-
Deposits from banks	**1,710,255**	**2,893,347**

Financial liabilities stemming from the TLTRO III programme (The targeted longer-term refinancing operations) of the ECB are presented under ‘Term deposits’. The Bank assessed an appropriate accounting treatment of the TLTRO III. The conclusion was that such instruments do not qualify as below-market interest rate loans and therefore are not related to IAS 20 government grants accounting. The reason was that the TLTRO is considered as a separate market organized by the ECB as part of its monetary policy. As a result, the IFRS 9 amortised cost accounting treatment applies.

The carrying amount of the TLTRO III liabilities was EUR 2,718.8 million at the end of 2021 (2020: EUR 1,496.6 million). The negative interest expense recognized for the TLTRO III in 2021, including the catch-up adjustment discussed below, was EUR 27.8 million. Details for respective tranches and collateral information is disclosed in note 22 Collaterals.

In general, the TLTRO interest rate is reduced if banks reach certain lending thresholds. At the TLTRO inception, the original effective interest rate is determined by considering the contractual terms and assessing whether the eligibility conditions for the reduced interest will be fulfilled. The scenario which is considered more likely is used for the original effective interest rate calculation.

The Bank assesses on an ongoing basis how it meets the eligibility criteria for the lower interest rate. Any subsequent changes in estimates of payments due to the revised assessment of the eligibility conditions are treated as catch-up adjustments. The amount of the catch-up adjustment is determined by discounting the revised estimated payments at the original effective interest rate and comparing it to the gross carrying amount before the adjustment. The catch-up adjustments are presented in the net interest income.

Deposits from customers

EUR ths.	31.12.2020	31.12.2021
Overnight deposits	**9,913,221**	**11,100,006**
Non-savings deposits	9,913,221	11,100,006
General governments	128,017	167,730
Other financial corporations	325,859	355,226
Non-financial corporations	1,831,802	2,094,810
Households	7,627,543	8,482,240
Term deposits	**5,011,596**	**4,877,309**
Deposits with agreed maturity	1,107,931	851,771
Non-savings deposits	1,107,931	851,771
General governments	478	417
Other financial corporations	25,793	7,261
Non-financial corporations	103,462	91,931
Households	978,198	752,162
Deposits redeemable at notice	3,903,665	4,025,538
Households	3,903,665	4,025,538
Deposits from customers	**14,924,817**	**15,977,315**
General governments	128,495	168,147
Other financial corporations	351,652	362,487
Non-financial corporations	1,935,264	2,186,741
Households	12,509,406	13,259,940

Debt securities issued

EUR ths.	31.12.2020	31.12.2021
Subordinated debt securities issues	63,534	51,241
Senior non-preferred bonds	30,848	30,687
Other debt securities issued	1,957,349	1,863,933
Bonds	299,719	487,704
Mortgage covered bonds	1,657,630	1,376,229
Debt securities issued	**2,051,731**	**1,945,861**

Net debt reconciliation

The table below presents an analysis of debt of the Bank and the movements in the debt. The debt items are those that are reported under the financing activities in the statement of cash flows of the Bank.

EUR ths.	31.12.2020	31.12.2021
Debt securities issued		
Opening balance as at 1 January	2,070,975	2,051,731
Cash-flows reported within financing activities	(23,715)	(73,174)
Non-cash adjustments	4,471	(32,696)
Closing balance as at 31 December	2,051,731	1,945,861
Lease liability		
Opening balance as at 1 January	44,703	39,878
Cash-flows reported within financing activities	(13,968)	(13,753)
Non-cash adjustments	9,143	6,208
Closing balance as at 31 December	39,878	32,333

Non-cash adjustments represents effects of amortization and deferrals.

Subordinated debt securities issued

The subordinated debt securities issued listed in the following table do not include embedded derivatives, which should be separated and disclosed under the balance sheet line item 'Financial liabilities held for trading'.

The interest rate shown below represents actual interest expense of the Bank.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2020	2021
Subordinated Bonds	August 2011	August 2021	-	10,000	1,000	EUR	13,977	-
Subordinated Bonds	November 2011	November 2023	4.58%	4,250	1,000	EUR	5,825	6,083
Subordinated Bonds	June 2012	June 2022	5.80%	11,000	1,000	EUR	16,113	16,999
Subordinated Bonds	November 2012	November 2022	4.30%	9,000	1,000	EUR	11,858	12,399
Subordinated Bonds	September 2018	September 2028	2.88%	33	100,000	EUR	3,327	3,327
Subordinated Bonds	September 2018	September 2028	1.48%	33	100,000	EUR	3,314	3,314
Subordinated Bonds	November 2018	November 2028	2.45%	91	100,000	EUR	9,120	9,119
Total							**63,534**	**51,241**

Senior non-preferred bonds

In February 2020 the Bank issued senior non-preferred bonds in the number of 300 securities with the notional value of EUR 0.1 million, interest rate 0.52% and maturity date in February 2026 in the total amount of EUR 30.7 million as at 31 December 2021 (2020: EUR 30.8 million).

Other debt securities issued

All securities listed in the following table are issued in book-entry form as bearer or registered securities with annual or semiannual coupon payments. Their transferability is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to these securities. The bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2021 other debt securities issued included embedded derivatives (equity and commodities) in the amount of EUR 0.0 million (2020: EUR 0.0 million), which were separated and disclosed in the line items 'Financial assets – held for trading' and 'Financial liabilities – held for trading'. More information on embedded derivatives are detailed in note 16 Derivative financial instruments.

The stated interest rate corresponds with the actual interest costs of the Bank.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2020	2021
Covered Bonds	July 2007	July 2027	4.95%	250	66,388	EUR	22,872	21,482
Covered Bonds	April 2008	April 2021	-	250	66,388	EUR	17,184	-
Covered Bonds	January 2013	January 2025	3.10%	87	50,000	EUR	4,412	4,412
Covered Bonds	June 2013	June 2028	3.00%	132	50,000	EUR	6,615	6,615
Covered Bonds	February 2014	February 2029	2.80%	97	50,000	EUR	4,899	4,899
Covered Bonds	March 2014	March 2021	-	8,204	1,000	EUR	8,249	-
Covered Bonds	March 2014	March 2022	2.00%	220	50,000	EUR	11,152	11,166
Covered Bonds	May 2014	May 2021	-	4,764	1,000	EUR	4,777	-
Covered Bonds	June 2014	June 2021	-	9,314	1,000	EUR	9,324	-
Covered Bonds	July 2014	July 2021	-	3,397	1,000	EUR	3,421	-
Covered Bonds	February 2015	February 2022	0.88%	350	100,000	EUR	35,273	35,279
Covered Bonds	August 2015	August 2025	1.38%	100	100,000	EUR	10,020	10,027
Covered Bonds	August 2015	August 2022	1.00%	100	100,000	EUR	10,031	10,037
Covered Bonds	December 2015	December 2021	-	170	100,000	EUR	17,005	-
Covered Bonds	February 2016	February 2021	-	500	100,000	EUR	50,223	-
Covered Bonds	March 2016	March 2021	-	6,787	1,000	EUR	6,809	-
Covered Bonds	March 2016	March 2026	1.00%	90	100,000	EUR	9,016	9,026
Covered Bonds	April 2016	April 2021	-	4,879	1,000	EUR	4,891	-
Covered Bonds	May 2016	May 2021	-	4,889	1,000	EUR	4,897	-
Covered Bonds	June 2016	June 2021	-	3,828	1,000	EUR	3,813	-
Covered Bonds	July 2016	July 2021	-	4,834	1,000	EUR	4,855	-
Covered Bonds	August 2016	August 2021	-	4,864	1,000	EUR	4,880	-
Covered Bonds	August 2016	August 2021	-	4,760	1,000	EUR	4,772	-
Covered Bonds	September 2016	September 2021	-	4,843	1,000	EUR	4,852	-
Covered Bonds	October 2016	October 2021	-	4,886	1,000	EUR	4,892	-
Covered Bonds	November 2016	November 2021	-	1,000	100,000	EUR	100,017	-
Covered Bonds	December 2016	December 2021	-	9,591	1,000	EUR	9,593	-
Senior Unsecured Bonds	December 2016	December 2021	-	4,090	1,000	EUR	4,091	-
Covered Bonds	March 2017	March 2025	0.75%	1,000	100,000	EUR	100,433	100,477
Senior Unsecured Bonds	March 2017	March 2022	0.60%	4,452	1,000	EUR	4,472	4,308
Senior Unsecured Bonds	April 2017	April 2022	0.60%	30	100,000	EUR	3,013	3,013
Senior Unsecured Bonds	April 2017	April 2022	0.60%	4,532	1,000	EUR	4,550	4,354
Senior Unsecured Bonds	May 2017	May 2022	0.60%	4,404	1,000	EUR	4,420	4,287
Covered Bonds	June 2017	June 2022	0.38%	50	100,000	EUR	5,005	5,009
Senior Unsecured Bonds	July 2017	July 2022	0.60%	4,506	1,000	EUR	4,518	4,353
Senior Unsecured Bonds	August 2017	August 2022	0.63%	4,478	1,000	EUR	4,488	4,140
Senior Unsecured Bonds	September 2017	September 2022	0.63%	4,610	1,000	EUR	4,618	4,418
Senior Unsecured Bonds	September 2017	September 2022	0.63%	9,186	1,000	EUR	9,201	8,922
Covered Bonds	October 2017	October 2022	0.50%	1,500	100,000	EUR	150,078	150,131
Senior Unsecured Bonds	November 2017	November 2027	1.38%	44	100,000	EUR	4,402	4,403
Senior Unsecured Bonds	November 2017	November 2022	2.00%	4,863	1,000	USD	3,973	4,303
Senior Unsecured Bonds	February 2018	February 2023	2.15%	3,601	1,000	USD	2,991	3,224
Senior Unsecured Bonds	February 2018	February 2023	0.65%	9,281	1,000	EUR	9,335	8,930
Senior Unsecured Bonds	March 2018	March 2021	-	142	100,000	EUR	14,229	-

The table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2020	2021
Senior Unsecured Bonds	March 2018	March 2023	0.65%	9,641	1,000	EUR	9,689	9,355
Senior Unsecured Bonds	April 2018	April 2021	-	3,584	1,000	USD	2,966	-
Senior Unsecured Bonds	June 2018	June 2024	0.75%	4,885	1,000	EUR	4,904	4,626
Covered Bonds	August 2018	August 2025	0.63%	2,500	100,000	EUR	262,050	256,069
Senior Unsecured Bonds	August 2018	August 2024	0.70%	4,862	1,000	EUR	4,874	4,632
Senior Unsecured Bonds	September 2018	September 2024	0.70%	4,674	1,000	EUR	4,683	4,539
Senior Unsecured Bonds	November 2018	November 2024	0.75%	4,850	1,000	EUR	4,853	4,702
Covered Bonds	December 2018	December 2024	0.50%	2,500	100,000	EUR	258,011	253,566
Senior Unsecured Bonds	December 2018	December 2024	0.75%	4,854	1,000	EUR	4,857	4,797
Senior Unsecured Bonds	February 2019	February 2025	0.70%	9,864	1,000	EUR	9,924	9,547
Senior Unsecured Bonds	March 2019	March 2025	0.00%	100	50,000	EUR	4,857	4,891
Covered Bonds	June 2019	June 2026	0.13%	5,000	100,000	EUR	503,312	498,034
Senior Unsecured Bonds	June 2019	December 2025	0.60%	5,711	1,000	EUR	5,713	5,574
Senior Unsecured Bonds	June 2019	June 2022	2.00%	3,696	1,000	USD	3,045	3,261
Senior Unsecured Bonds	February 2020	February 2024	0.00%	170	100,000	EUR	17,000	16,999
Senior Unsecured Bonds	March 2020	March 2025	0.00%	53	2,000,000	CZK	3,842	4,105
Senior Unsecured Bonds	June 2020	June 2025	0.63%	150	100,000	EUR	15,001	4,504
Senior Unsecured Bonds	June 2020	June 2023	0.70%	5,000	1,000	EUR	5,018	4,965
Senior Unsecured Bonds	June 2020	June 2025	0.80%	5,000	1,000	EUR	5,020	4,950
Senior Unsecured Bonds	August 2020	August 2025	-	214	50,000	EUR	10,710	-
Senior Unsecured Bonds	August 2020	August 2023	0.35%	5,000	1,000	EUR	5,006	4,913
Senior Unsecured Bonds	October 2020	October 2025	0.25%	1,000	100,000	EUR	99,457	99,582
Senior Unsecured Bonds	March 2021	March 2027	0.47%	1,000	100,000	EUR	-	102,347
Senior Unsecured Bonds	June 2021	June 2024	0.60%	1,299	1,000	USD	-	1,151
Senior Unsecured Bonds	June 2021	June 2028	0.38%	1,302	100,000	EUR	-	129,609
Total							**1,957,350**	**1,863,933**

In May 2020 the Bank issued covered bond in the value of 500 mil. EUR with interest rate 0.125% and maturity of 7 years, which was not placed in the market and according IFRS is therefore not possible to recognized this bond in the balance sheet. Subsequently this covered bond was used as collateral for obtaining term deposit from TLTRO. See also note 20 Offsetting of financial instruments.

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

There are various reasons for assigning the fair value through profit or loss measurement category to debt instrument financial assets.

Fair value through profit or loss measurement relates to that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Bank, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales. Another reason for the the fair value through profit or loss measurement are financial assets whose contractual cash flows are not considered as SPPI.

The Bank also makes use of the option to designate some financial assets as measured at fair value through profit or loss at initial recognition. Such a classification is used if it eliminates or significantly reduces an accounting mismatch between fixed interest rate financial assets, which in the absence of such a classification would be measured at amortised cost or at fair value through other comprehensive income, and related derivatives measured at fair value through profit or loss.

On the balance sheet, debt instrument financial assets measured at fair value through profit or loss are presented as ‘Financial assets held for trading’, sub-item ‘Other financial assets held for trading’ and ‘Non-trading financial assets at fair value through profit or loss’, sub-items ‘Debt securities’. Non-trading financial assets at fair value through profit or loss are disclosed in Note 17 which is 'mandatorily at fair value through profit or loss'. Financial assets are mandatorily measured at fair value through profit or loss either because they are held as part of residual business models that are other than held for trading or their contractual cash flows are not SPPI.

Investments in equity instruments that are held for trading (i.e. financial assets held by the trading function of the bank) are measured at fair value through profit or loss. They are included in the balance sheet under the line 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments that are not held for trading are also measured at fair value through profit or loss (unless they are designated at fair value through other comprehensive income). They are presented in the balance sheet under 'Non-trading financial assets at fair value through profit or loss', sub-item 'Equity instruments', sub-category 'mandatorily at fair value through profit or loss' in Note 17.

From IFRS 9 perspective all derivatives which are not designated as hedging instruments are considered as held for trading. As a result, they are measured at fair value through profit or loss. They are described more detail in the Note 16 Derivative financial instruments.

In the statement of income, the profit or loss effects of non-derivative financial assets measured at fair value through profit or loss are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Other similar income' under 'Net interest income' and is calculated by applying the EIR to the amortised cost component of the financial assets. The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income, and they also include transaction costs and origination fees. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at fair value through profit or loss.

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and financial liabilities designated at fair value through profit or loss. On the balance sheet, financial liabilities at fair value through profit or loss are presented as 'Financial liabilities held for trading', sub-items 'Derivatives'. Accounting policy related to financial liabilities at fair value through profit or loss can be found in Note 16 Derivative financial instruments.

16. Derivative financial instruments

Derivative financial instruments are used by the Bank to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by the Bank include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps.

For presentation purposes, derivatives are split into:

- Derivatives – held for trading and
- Derivatives – hedge accounting.

Hedge accounting derivatives are discussed in Note 19 Hedge accounting.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those that are not designated as hedging instruments for hedge accounting. They are presented in the statement of financial position in the line item 'Derivatives' under the heading 'Financial assets/Financial liabilities held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book, are presented in this line item.

Changes in the fair value (clean price) of derivatives are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to financial derivatives is presented in the statement of income in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'. Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

Derivatives held for trading

	31.12.2020			31.12.2021		
EUR ths.	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**2,405,271**	**59,994**	**56,524**	**2,505,756**	**47,874**	**46,131**
Interest rate	2,066,927	21,952	20,708	2,063,330	11,392	10,473
Foreign exchange	338,344	38,042	35,816	442,426	36,482	35,658
Total gross amounts	**2,405,271**	**59,994**	**56,524**	**2,505,756**	**47,874**	**46,131**

The Bank disclosed derivative instruments in the banking book that are used for economical hedging of financial instruments on asset or liability side and are not designated as hedge accounting.

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as a part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most cases requires margin deposits.

Embedded derivatives

As a part of ordinary business activity the Bank issues complex debt instruments, which contain embedded derivatives.

Embedded derivatives are separated from the host debt instruments if:

- the embedded derivative meets the definition of a derivative,
- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments,
- the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item ‘Derivatives’ in financial assets held for trading and financial liabilities held for trading. Derivatives that are not closely related and are separated relate to bonds and deposits.

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

	31.12.2020		31.12.2021	
EUR ths.	Designated at fair value	Mandatorily at fair value	Designated at fair value	Mandatorily at fair value
Equity instruments	-	7,547	-	7,155
Debt securities	-	7,740	-	13,909
Other financial corporations	-	7,740	-	7,913
Non-financial corporations	-	-	-	5,996
Non-trading financial assets at fair value through profit or loss	**-**	**15,287**	**-**	**21,064**

´Equity Instruments´ classified under category ´Mandatorily at fair value´ represents such equity Instruments that the Bank does not hold for strategic business decisions.

´Debt securities´ classified under category ´Mandatorily at fair value´ represents financial assets, which do not comply with the SPPI criteria under IFRS 9.

FINANCIAL INSTRUMENTS – OTHER DISCLOSURE MATTERS

18. Fair value of financial instruments

The measurement of fair value at the Bank is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Using of unobservable inputs is particularly relevant for models used for valuations of loans and unquoted equity investments. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found subsequently. For all financial instruments the fair value is measured and/or disclosed on a recurring basis.

Financial instruments carried at fair value

Description of valuation models and parameters

The Bank uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Debt securities.
For plain vanilla (fixed and floating rate) debt securities the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modeling techniques including methods described for OTC-derivatives.

Equity instruments.
Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity.

The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the levered beta and the country risk premium.

In rare cases, techniques for non-trading equity instruments may also include the comparable company multiple methods. These are valuation technique that uses prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

OTC - derivative financial instruments.
Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps and commodity swaps) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes and Hull-White type models. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo simulation. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.
For determining the fair value of derivatives the OIS curves are applied for discounting.
The Bank values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debit value adjustments (DVA) for own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. The Bank has implemented an approach, where the modeling of the expected exposure is based on option replication strategies. For products where an option replication is not feasible the exposure is computed with Monte-Carlo simulation techniques. One of the two modeling approaches is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default by counterparties that are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles present in the central European market. Market based valuation concepts are incorporated for this. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances. Netting has only been considered for a few counterparties where the impact was material. In these cases, netting has been applied for both CVA and DVA. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

According to the described methodology the accumulated CVA-adjustments amounted to EUR 3.1 million at 31. December 2021 (2020: EUR 2.3 million) and the total DVA-adjustment amounted to EUR 0.9 million (2020: EUR 0.6 million).
Based on an analysis carried out by the Bank it was decided that for the valuation of OTC derivatives no Funding Value Adjust-ment (FVA) would be considered.

Validation and control

The responsibility for valuation of financial instruments measured at fair value is risk management unit which is independent of the trading units. The risk management unit is also responsible for appropriateness of input date and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. The evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

Level 1 measurement include exchange traded derivatives (options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

Level 2 measurement include OTC derivatives, less liquid shares, bonds and funds as well as asset backed securities (ABS), collateralized debt obligations (CDO), own issues and deposits.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. Typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

These include shares, participations and funds not quoted, illiquid bonds as well as collateralized mortgage obligations (CMO) as well as loans. Furthermore, fund units issued by investment funds fully separate by Erste Group as well as own issues are reported in this category.
The volume of Level 3 financial assets can be allocated to the following categories:

- Derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares, participations and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.
- Loans which do not comply with the contractual cash flow criteria.
- Own issues, if price updates are not provided on a regular basis

The allocation of the appropriate level of positions is determined at the end of the reporting period.
A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

Derivatives transacted via Clearing Houses are presented after netting in compliance with their balance sheet treatment. The netted derivatives are allocated to Level 2.

Valuation process for financial instruments categorized as Level 3

The valuation of financial instruments categorized as Level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking for similar transactions, among others.

This involves estimation and expert judgment. Further details regarding input parameters used and the results of the sensitivity analysis are disclosed in the sub-chapter Unobservable inputs and sensitivity analysis for Level 3 measurements below.

EUR ths.	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
	31.12.2020				31.12.2021			
Assets								
Financial assets HfT	-	59,994	-	59,994	-	47,874	-	47,874
Derivatives	-	59,994	-	59,994	-	47,874	-	47,874
Non-trading financial assets at FVPL	-	-	15,287	15,287	-	-	21,065	21,065
Equity instruments	-	-	7,547	7,547	-	-	7,155	7,155
Debt securities	-	-	7,740	7,740	-	-	13,910	13,910
Hedge accounting derivatives	-	34,345	-	34,345	-	16,454	-	16,454
Total assets	**-**	**94,339**	**15,287**	**109,626**	**-**	**64,328**	**21,065**	**85,393**
Liabilities								
Financial liabilities HfT	-	56,524	-	56,524	-	46,131	-	46,131
Derivatives	-	56,524	-	56,524	-	46,131	-	46,131
Hedge accounting derivatives	-	48,373	-	48,373	-	31,844	-	31,844
Total liabilities	**-**	**104,897**	**-**	**104,897**	**-**	**77,975**	**-**	**77,975**

Reclassification between Level 1 and Level 2 based on balance sheet positions and instruments

Transfers into and out of Level 1 and Level 2 are mainly due to changes in the market activity and consequently in the observability of valuation parameters. Transfers in year 2021 were immaterial and in 2020 as well.

Movements in Level 3

Development of fair value of financial instruments in Level 3

EUR ths.	01.01.2021	Gain/loss in profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Additions to Group	Disposal out of Group	Transfer into Level 3	Transfer out of Level 3	Currency translation	31.12.2021
Assets												
Non-trading financial assets at FVPL	15,287	(192)	-	8,245	(2,311)	-	-	-	-	-	36	21,065
Equity instruments	7,547	(428)	-	-	-	-	-	-	-	-	36	7,155
Debt securities	7,740	236	-	8,245	(2,311)	-	-	-	-	-	-	13,910
Total assets	**15,287**	**(192)**	**-**	**8,245**	**(2,311)**	**-**	**-**	**-**	**-**	**-**	**36**	**21,065**

EUR ths.	01.01.2020	Gain/loss in profit or loss	Gains/losses OCI	Purchases	Sales	Settlements	Additions to the group	Disposal out of Group	Transfers into Level 3	Transfer out of Level 3	Currency translation	31.12.2020
Assets												
Non-trading financial assets at FVPL	10,550	635	-	22,049	(9,819)	(8,128)	-	-	-	-	-	15,287
Equity instruments	7,375	565	-	8,126	(8,519)	-	-	-	-	-	-	7,547
Debt securities	3,175	70	-	13,923	(1,300)	(8,128)	-	-	-	-	-	7,740
Financial assets at FVOCI	89,262	-	10,406	-	(85,745)	(13,923)	-	-	-	-	-	-
Equity instruments	89,262	-	10,406	-	(85,745)	(13,923)	-	-	-	-	-	-
Total assets	**99,812**	**635**	**10,406**	**22,049**	**(95,564)**	**(22,051)**	**-**	**-**	**-**	**-**	**-**	**15,287**

Transfers into and out of Level 3 are mainly due to changes in the market activity and consequently in the observability of valuation parameters.

Gains/losses in profit or loss on Level 3 instruments held at the end of the reporting period

EUR ths.	31.12.2020	31.12.2021
Assets		
Non-trading financial assets at FVPL	482	(317)
Equity instruments	565	(427)
Debt securities	(83)	110
Total assets	**482**	**(317)**

Unobservable inputs and sensitivity analysis for Level 3 measurements

In case the fair value measurement of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the balance sheet the parameters were chosen to reflect the market situation at the reporting date.

Range of unobservable valuation parameters used in Level 3 measurements

Financial assets	Type of instrument	Fair value in EUR million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31.12.2021					
Financial assets at FVPL	Non-trading equity instruments (participations)	7.2	Approved budgets	Risk spread used in discounting future cash flows	N/A
	Non-trading debt instrument	1.4	Published NAV adjusted by assessed impairment value	Repayment dates for the worst and for the current scenario, assumed (by very indicative market quotes) exit value	2022-2033
				Risk spread used in discounting future cash flows	50bp
		12.5	Theoretical price with some expert opinion (market unobservable) inputs	Risk spread used in discounting future cash flows	50bp
31.12.2020					
Financial assets at FVPL	Non-trading equity instruments (participations)	7.5	Approved budgets	Risk spread used in discounting future cash flows	N/A
	Non-trading debt instrument	1.7	Published NAV adjusted by assessed impairment value	Repayment dates for the worst and for the current scenario	2021 - 2028
				Risk spreads	50 - 300bp
		6.0	Theoretical price with some expert opinion (market unobservable) inputs	Risk spread used in discounting future cash flows	50bp

Sensitivity analysis using reasonably possible alternatives per product type

	31.12.2020		31.12.2021	
	Fair value changes		Fair value changes	
Eur mil.	Positive	Negative	Positive	Negative
Debt securities	0.05	(0.03)	0.27	(0.25)
Income statement	0.05	(0.03)	0.27	(0.25)
Equity instruments*	-	-	-	-
Income statement	-	-	-	-
Total	0.05	(0.03)	0.27	(0.25)
Income statement	0.05	(0.03)	0.27	(0.25)

*Sensitivity analysis is not calculated for equity instruments.

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding fair values. Positive correlation effects between PDs and LGDs were not taken into account in the sensitivity analysis. For non-trading equity instruments increases (decreases) in any of the inputs used for the cost of equity calculation in isolation would result in a lower (higher) fair value.

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- for debt securities range of credit spreads between -50 basis points and 50 basis points
- for equity related instruments the risk spreads shifts by plus and minus 50 basis points

Financial instruments not carried at fair value with fair value disclosed in the notes

EUR ths.	Carrying amount	Fair value	Level 1	Level 2	Level 3
31.12.2021					
Assets					
Cash and cash balances	2,907,420	2,907,420	413,763	2,493,657	-
Financial assets at AC	19,518,537	20,755,096	3,244,174	991,759	16,519,163
Loans and advances to banks	49,983	49,998	-	-	49,998
Loans and advances to customers	15,556,896	16,405,791	-	-	16,405,791
of which: Lending for house purchase	9,256,084	9,920,542	-	-	9,920,542
of which: Credit for consumption	1,354,339	1,448,282	-	-	1,448,282
of which: Corporate loans and others	4,946,473	5,036,967	-	-	5,036,967
Debt securities	3,911,658	4,299,307	3,244,174	991,759	63,374
Finance lease receivables	233,435	238,282	-	-	238,282
Assets held for sale	-	-	-	-	-
Trade and other receivables	128,930	128,507	-	-	128,507
Liabilities					
Financial liabilities at AC	20,853,049	20,816,752	502,298	738,005	19,576,449
Deposits from banks	2,893,347	2,891,811	-	-	2,891,811
Deposits from customers	15,977,315	15,917,551	-	-	15,917,551
Debt securities in issue	1,945,861	1,970,864	502,298	738,005	730,561
Other financial liabilities	36,526	36,526	-	-	36,526

EUR ths.	Carrying amount	Fair value	Level 1	Level 2	Level 3
31.12.2020					
Assets					
Cash and cash balances	1,717,486	1,717,486	352,330	1,365,156	-
Financial assets at AC	18,285,464	20,233,193	2,673,284	1,474,376	16,085,533
Loans and advances to banks	49	49	-	-	49
Loans and advances to customers	14,605,711	16,019,169	-	-	16,019,169
of which: Lending for house purchase	8,512,258	9,557,547	-	-	9,557,547
of which: Credit for consumption	1,503,312	1,678,086	-	-	1,678,086
of which: Corporate loans and others	4,590,141	4,783,536	-	-	4,783,536
Debt securities	3,679,704	4,213,975	2,673,284	1,474,376	66,315
Finance lease receivables	241,012	251,748	-	-	251,748
Assets held for sale	-	-	-	-	-
Trade and other receivables	81,597	81,749	-	-	81,749
Liabilities					
Financial liabilities at AC	18,709,308	18,883,858	511,497	1,365,149	17,007,212
Deposits from banks	1,710,255	1,722,498	-	-	1,722,498
Deposits from customers	14,924,817	15,049,233	-	-	15,049,233
Debt securities in issue	2,051,731	2,089,622	511,497	1,365,149	212,976
Other financial liabilities	22,505	22,505	-	-	22,505

As at 31 December 2021 fair value of financial guarantees given amounts EUR -0.5 million (2020: EUR 4.3 million) and fair value of irrevocable commitments given amounts EUR 5.0 million (2020: EUR 47.2 million). All these amounts are in level 3. Positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign.

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted. The fair values of debt securities at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is determined based on quoted prices in active markets, if available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. Significant input factors for the spread adjustment of the Bank's own credit risk for the respective seniority class are credit spreads derived from liquid benchmark bonds and additional indications from external investments banks, which are provided on a regular basis. The applied spreads are validated on a regular basis from an independent Risk Management unit. Moreover optionality is taken into account when calculating the fair value.

For off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) the following fair value approaches are applied:
the fair value of unused loan commitments is estimated using regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated total fair value and the notional amount of the hypothetical loan equivalents represents the fair value of the unused loan commitments. In case of the total fair value being higher than the notional amount of the hypothetical loan equivalents the unused loan commitments have a positive fair value. The fair value of financial guarantees is estimated in analogy to credit default swaps. The fair value of the guarantee is the sum of the present value of the protection leg and the present value of the premium leg. The value of the protection leg is estimated using the PDs and LGDs of the respective customers, whereas the value of the premium leg is estimated by the present value of

the future fee payments to be received. If the protection leg is higher than the premium leg, financial guarantees have a negative fair value.

19. Hedge accounting

The Bank makes use of derivative instruments to hedge exposures to interest rate risk. In order for the derivatives and the exposures to qualify for hedge accounting, at inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk offset the fair value changes of the hedging instrument in a range of 80% to 125%. This is assessed both prospectively, i.e. whether the results are expected to be in the range, and retrospectively, i.e. whether the actual results are in the range. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Bank are specified internally in the hedge accounting guidance. As permitted by the transitional provisions of IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

On the balance sheet, derivatives designated as hedging instruments are carried at fair value (dirty price). They are presented in the line item ‘Hedge accounting derivatives’ on the asset or liability side depending on whether their fair value is positive or negative.

Fair value hedges

For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the statement of income under the line item ‘Net trading result’. Interest income and expenses on hedging derivatives are reported in the line item ‘Other similar income’ or ‘Other similar expenses’ under ‘Net interest income’. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the statement of income under the line item ‘Net trading result’ and adjusts the carrying amount of the hedged item.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under ‘Net interest income’ in the line item ‘Interest income’ if the hedged item was a financial asset or in the line item ‘Interest expenses’ if the hedged item was a financial liability. For portfolio fair value hedges of interest rate risk the fair value adjustment related to the terminated hedge is amortised to the statement of income on a straight-line basis in the line item ‘Other similar income’ under ‘Net interest income’.

Notional amounts of hedged items

		Notional amount	
EUR ths.	**Type of hedged items**	**31.12.2020**	**31.12.2021**
Fair value hedges		**1,145,521**	**1,095,521**
Assets	Bonds at AC	381,224	331,224
Liabilities	Issued bonds	764,297	764,297

The hedge ratio is chosen in compliance with the rules defined in IAS 39. The volume of the hedging instrument which is designated for the hedge relation can never be greater than the volume of the hedged item. If the notional of a hedging derivative is greater than the notional of the hedged item the respective proportion of the derivative is designated as hedging instrument. Further, the tenor of the hedging instrument is never longer than the tenor of the hedged item.

Sources of hedge ineffectiveness can result from:

- designation of hedging instruments and hedged items during their life rather than from their inception
- different discounting curves applied for hedged item and hedging instrument
- different interest tenors of hedging swaps and hedged variable rate items in cash flow hedges
- volatility of present value of floating leg of hedging swaps in fair value hedges
- different trade dates for the hedging instrument and the hedged item
- real prepayments of a loan portfolio deviating from expected prepayments
- credit risk adjustments (CVA, DVA) on the hedging derivatives

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value as of 31 December 2021 are reported. The indicated values for fair value hedges include single hedges, which due to immateriality are not shown separately.

Hedging instruments

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

EUR ths.	Carrying amount		Change in FV for the period used for calculating hedge ineffectiveness	Notional	Timing of the nominal amounts of the instruments			
	Assets	Liabilities			≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years
31.12.2021								
Fair value hedges	**16,454**	**31,844**	**(3,118)**	**1,095,521**	**-**	**-**	**978,924**	**116,597**
Interest rate risk	16,454	31,844	(3,118)	1,095,521	-	-	978,924	116,597
Total gross amounts	**16,454**	**31,844**	**(3,118)**	**1,095,521**	**-**	**-**	**978,924**	**116,597**
Offset	-	-	-	-	-	-	-	-
Total	**16,454**	**31,844**	**(3,118)**	**1,095,521**	**-**	**-**	**978,924**	**116,597**
31.12.2020								
Fair value hedges	**34,345**	**48,373**	**10,987**	**1,145,521**	**50,000**	**-**	**687,700**	**407,821**
Interest rate risk	34,345	48,373	10,987	1,145,521	50,000	-	687,700	407,821
Total gross amounts	**34,345**	**48,373**	**10,987**	**1,145,521**	**50,000**	**-**	**687,700**	**407,821**
Offset	-	-	-	-	-	-	-	-
Total	**34,345**	**48,373**	**10,987**	**1,145,521**	**50,000**	**-**	**687,700**	**407,821**

Hedged items in fair value hedges

EUR ths.	Carrying amount	Hedge adjustments		
		included in the carrying amount	Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
31.12.2021				
Financial assets at AC	**371,792**	**26,007**	**(14,912)**	**-**
Interest rate risk	371,792	26,007	(14,912)	-
Financial liabilities at AC	**(778,028)**	**(14,753)**	**17,972**	**-**
Interest rate risk	(778,028)	(14,753)	17,972	-
31.12.2020				
Financial assets at AC	**448,449**	**40,918**	**547**	**-**
Interest rate risk	448,449	40,918	547	-
Financial liabilities at AC	**795,423**	**32,725**	**(11,196)**	**-**
Interest rate risk	795,423	32,725	(11,196)	-

The hedged items are disclosed in the following line items in the balance sheet:

- Financial assets at amortised cost / debt securities
- Financial liabilities at amortised cost / debt securities issued

Ineffectiveness from fair value hedges is presented under 'Net trading result' in the statement of income.

Application of the Interest Rate Benchmark Reform IAS 39 amendments

The Bank also hedges interest rate risks in EUR. However, for these currencies it does not consider to be exposed to uncertainties resulting from the reform. For EUR all the hedges relate to EURIBOR interest rates which have been reformed and are EU Benchmark Regulation compliant.

Fair value hedge of assets

As at 31 December 2021 the Bank held in portfolio of financial assets at amortised cost fixed rate bonds denominated in EUR with nominal value of EUR 331.2 million (2020: EUR 381.2 million). As the purchases of these bonds increased exposure to interest rate risk in the period from five to fifteen years, the Bank entered into interest rate swap deals in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates.

During the year 2021 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Bank recognised a net gain on the hedging instruments in the amount of EUR 15.0 million (2020: net loss EUR 0.3 million). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to EUR 14.9 million (2020: net gain EUR 0.5 million).

Fair value hedge of liabilities

The Bank uses hedging to secure its issued fixed rate covered bonds (former mortgage bonds). The list of bonds is disclosed in the note 15 Financial liabilities at amortised cost. As at 31 December 2021 the Bank holds covered bonds in total nominal value of EUR 764.3 million (2020: EUR 764.3 million).

During the year 2021 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Bank recognised a net loss on the hedging instruments in the amount of EUR 18.0 million (2020: net gain EUR 11.3 million). On the other hand, a net gain on the hedged item attributable to the hedged risk amounted to EUR 18.0 million (2020: net loss EUR 11.2 million).

20. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is carried out between asset and liability derivative positions, while the net position is further offset with variation margin amounts.
The following table shows netting effects on the balance sheet of the Bank as well as the impacts of offsetting financial instruments which are subject to offsetting agreements.

Financial assets subject to offsetting and potential offsetting agreements

EUR ths.	Financial assets (gross)	Amounts offset (gross)	Financial assets in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Other financial collateral received	
31.12.2021							
Derivatives	47,874	-	47,874	6,834	-	-	41,040
Hedge accounting	16,454	-	16,454	11,540	-	-	4,914
Total	**64,328**	**-**	**64,328**	**18,374**	**-**	**-**	**45,954**
31.12.2020							
Derivatives	59,994	-	59,994	7,996	-	-	51,998
Hedge accounting	34,345	-	34,345	28,095	-	-	6,250
Total	94,339	-	94,339	36,091	-	-	58,248

Financial liabilities subject to offsetting and potential offsetting agreements

EUR ths.	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Other financial collateral pledged	
31.12.2021							
Derivatives	46,131	-	46,131	6,834	-	30,485	8,812
Hedge accounting	31,844	-	31,844	11,540	-	20,304	-
Total	**77,975**	**-**	**77,975**	**18,374**	**-**	**50,789**	**8,812**
31.12.2020							
Derivatives	56,524	-	56,524	7,996	-	47,301	1,227
Hedge accounting	48,373	-	48,373	28,095	-	20,278	-
Repurchase agreements	50,849	-	50,849	-	-	50,849	-
Total	**155,746**	**-**	**155,746**	**36,091**	**-**	**118,428**	**1,227**

The Bank employs master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column 'Financial instruments'. If the net position is further secured by cash collateral or other financial collaterals the effects are disclosed in columns 'Cash collateral received / pledged' and 'Other financial collateral received / pledged' respectively.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column 'Other financial collateral received / pledged' respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and other financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge. For further details regarding repurchase transactions we refer to note 21 Transfers of financial assets – repurchase transactions and securities lending

21. Transfers of financial assets – repurchase transactions and securities lending

Repurchase and reverse repurchase agreements

Transactions involving sales of securities under an agreement to repurchase them at a specified future date are also known as ‘repos’ or ‘sale and repurchase agreements’. Securities sold in such transactions are not derecognised from the balance sheet, as the Bank retains substantially all risks and rewards of ownership, because the securities are repurchased at a fixed price when the transaction ends. Furthermore, the Bank is the beneficiary of all coupons and other income payments received on the transferred assets over the period of the transactions. These payments are remitted to the Bank or are reflected in the repurchase price.

The cash received upon sale of securities is recognised on the balance sheet with a corresponding obligation to return under the line item ‘Financial liabilities at amortised cost’, sub-items ‘Deposits from banks’ or ‘Deposits from customers’ reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense which is accrued over the life of the agreement and recorded in the statement of income in the line item ‘Interest expenses’ under ‘Net interest income’.

Financial assets transferred out by the Bank under repurchase agreements remain on the Bank’s balance sheet and are presented separately under the original balance sheet items in the ‘pledged as collateral’ lines. The measurement category of the transferred financial assets does not change.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as ‘reverse repos’. The consideration paid is recorded on the balance sheet under the line item ‘Financial assets at amortised cost’, sub-items ‘Loans and advances to banks’ and ‘Loans and advances to customers’ reflecting the transaction’s economic substance as a loan by the Bank. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the statement of income in the line item ‘Interest income’ under ‘Net interest income’.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Bank as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lending. Securities lent are presented separately under the original balance sheet items in the 'pledged as collateral' lines. Fee income from securities lending transactions is presented in the statement of income in the line 'Fee and commission income' under 'Net fee and commission income'. Fee expense incurred on securities borrowing transactions is presented in the statement of income in the line 'Fee and commission expenses' under 'Net fee and commission income'.

	31.12.2020		31.12.2021	
EUR ths.	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	**45,350**	**50,849**	**-**	**-**
Financial assets at AC	45,350	50,849	-	-
Total	**45,350**	**50,849**	**-**	**-**

The transferred financial instruments consist of bonds and other interest-bearing securities. The total amount of transferred financial assets represent the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge. The associated liabilities from repo transaction, which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows fair values of the transferred assets and associated liabilities for repo transactions with an existing recourse right only on the transferred assets:

	31.12.2020			31.12.2021		
EUR ths.	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Financial assets at AC	49,846	52,588	(2,741)	-	-	-
Trading assets	-	-	-	-	-	-
Non-trading financial assets at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-
Total	**49,846**	**52,588**	**(2,741)**	**-**	**-**	**-**

22. Collaterals

Carrying amount of financial assets pledged as collaterals

EUR ths.	31.12.2020	31.12.2021
Financial assets at AC	3,540,330	4,323,689
Trading assets	-	-
Non-trading financial assets at FVPL	-	-
Financial assets at FVOCI	-	-
Total	**3,540,330**	**4,323,689**

	Carrying amount of transferred assets					Carrying amount of associated liabilities		
EUR ths.	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Repurchase agreements	Other associated liabilities
As of 31.12.2021								
Financial assets at amortised cost								
Debt securities	2,273,268	-	45,971	113,758	2,113,539	2,317,330	-	2,317,330
Loans and advances to customers	2,050,421	-	-	1,504,000	546,421	1,839,102	-	1,839,102
Assets pledged as collateral	**4,323,689**	**-**	**45,971**	**1,617,758**	**2,659,960**	**4,156,432**	**-**	**4,156,432**

	Carrying amount of transferred assets					Carrying amount of associated liabilities		
EUR ths.	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Repurchase agreements	Other associated liabilities
As of 31.12.2020								
Financial assets at amortised cost								
Debt securities	1,156,351	45,350	47,391	114,757	948,853	1,187,403	50,849	1,136,554
Loans and advances to customers	2,383,979	-	-	1,831,526	552,453	2,096,767	-	2,096,767
Assets pledged as collateral	**3,540,330**	**45,350**	**47,391**	**1,946,283**	**1,501,306**	**3,284,170**	**50,849**	**3,233,321**

The financial assets pledged as collateral consist of loans and advances to customers, bonds and other interest-bearing securities. Collaterals were pledged as a result of repurchase transactions, refinancing transactions with the respective National Bank, loans backing issued mortgage bonds and other collateral arrangements.

In June 2020, the Bank entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank. As at 31 December 2021 the Bank has a liability in form of cash received in TLTRO shown within other associated liabilities (EUR 500 million). The Bank has pledged SK government bond (EUR 77.1 million) and own retained covered bond (EUR 500 million) where mortgage loans are shown as encumbered assets (EUR 546.4 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

In September 2020, the Bank entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank again. As at 31 December 2021 the Bank has a liability in form of cash received in TLTRO shown within other associated liabilities (EUR 1,000 million). The Bank has pledged SK government bonds (EUR 843.3 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

In March 2021, the Bank entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank in the amount of EUR 1,000 million which is shown within other associated liabilities. The Bank has pledged SK government bonds (EUR 906 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

In June 2021, the Bank entered into Targeted Long Term Refinancing Operation (TLTRO) with central bank in the amount of EUR 250 million which is shown within other associated liabilities. The Bank has pledged SK government bonds (EUR 277.6 million) as collateral to TLTRO. The collateral is shown within other transferred assets.

RISK AND CAPITAL MANAGEMENT

23. Risk management

Risk policy and strategy

A core function of the Bank is taking risks in a conscious and selective manner and professionally steering those risks. Adequate risk policy and risk strategy is essential to the Bank's fundamental financial health and operational business success.

The Bank has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

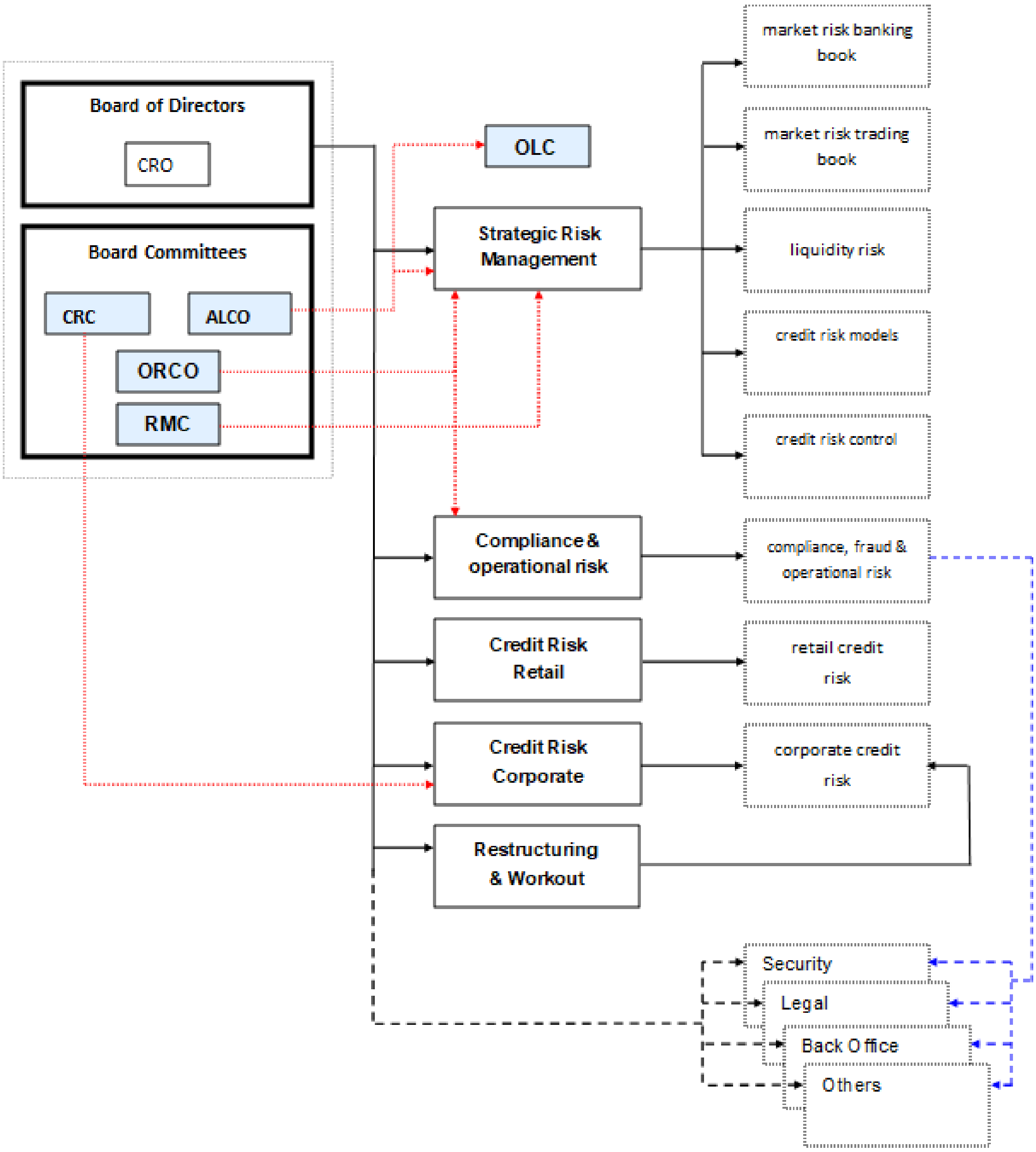
The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clearly defined governance structure. This structure also applies to monitoring of risk appetite, additional metrics, as well as to the escalation of limit breaches.

For two consecutive years the Covid-19 pandemic has been the central topic worldwide – and hence also in our core markets, management has continued to steer credit portfolio, including active management of non-performing exposures to further strengthen the risk profile. A forward-looking approach was implemented in the Bank and significant provisions were set aside to reflect the expected deterioration in asset quality as a result of worsening in the macroeconomic outlook due to Covid-19

The Bank uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of the Bank at https://www.slsp.sk/sk/informacie-o-banke/investori/financne-ukazovatele.

Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the organizational structure of risk in the Bank:



Risk management structure

The ultimate risk management body is the Board of Directors. However, it may delegate some of its authority for particular risk management areas to the respective committees. The Board of Directors also designates one of its members to serve as the Chief Risk Officer ('CRO').

Asset & Liability Committee ('ALCO') has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

Credit Risk Committee ('CRC') is the ultimate decision making body for corporate credit risk.

Operational Risk and Compliance Committee ('ORCO') is the authorized body to make decisions on operational risk strategies and procedures, risk appetite and tolerance levels, also decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, CRC and ORCO are composed of the members of the Board of Directors and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee ('OLC') governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the Bank on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, Balance Sheet Management (BSM) and Strategic Risk Management (SRM).

Risk Management Committee ('RMC') is a committee consisting of selected members of the Board of Directors and senior managers. It is responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, as well as for comprehensive stress testing.

The bottom (executive) level of the risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division carries out all activities concerning operative credit risk of corporate clients.
- Retail Credit Risk Management Division is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, early collection process, collateral management and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models.
- Compliance & Security is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue / dashed lines in the chart).
- Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. It is also responsible for monitoring, restructuring of receivables over-due, specific provisions and collateral management.

In the chart above, black lines show the assignment of different risk types to the respective units. Solid black lines show the areas directly subordinated to the Chief Risk Officer. Strategic Risk Management and Corporate Credit Risk Management may also report directly to their respective committees as shown by red / dotted lines.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in the Bank's risk management strategy.

Corporate Credit Risk Management

Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). Furthermore, it monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits, maintains deal and limits documentation for corporate clients.

Retail Credit Risk Management

Retail Credit Risk Management Division formulates the credit policy and internal actions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). Furthermore, it monitors the development of credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limits documentation, as well as performs early and late collection and retail collateral management.

Strategic Risk Management

Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the Bank's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to capital requirements regulation and directive and model for economic capital. In addition to this, SRM has two other specific roles:

- credit exposures to Groups, sovereigns and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally monitored by SRM;
- credit lines of Treasury clients (approved by Credit Risk Corporate or Credit Committee) are determined and monitored by SRM.

Compliance & Operational Risk Management

Compliance & Operational Risk Management is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue / dashed lines in the chart).

Restructuring & Work out

Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. It is also responsible for monitoring, restructuring of receivables over-due, specific provisions and collateral management.

Legal services

Legal services Division provides legal support and counsel for the management board, the business units and the central functions, and mitigate legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Comprehensive risk and capital management

Internal Capital Adequacy Assessment Process ('ICAAP') is a process in which all significant risks that the Bank faces must be covered by internal capital (i.e. coverage potential). This means that all material risks are determined, quantified, aggregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Bank consists of the following steps:

- Risk appetite statement (RAS), limits and risk strategy
- Risk materiality assessment
- Risk-bearing capacity calculation
- Stress testing
- Capital management

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the Bank's management in pursuing its strategy.

Risk appetite

The Bank defines the maximum level of risk it is willing to accept in order to meet its business objectives within the Bank's risk appetite (RAS). The RAS acts as a binding constraint to the Bank's business activities within its overall risk appetite via triggers and limits approved by the management board. It is integrated and embedded into Bank's structural processes; including business and risk strategy, budget process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The RAS consists of a set of core and supporting risk metrics providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that are part of the guidelines for managing risks. The core risk metrics are set as ultimate boundaries for the Bank's risk-return target setting. They are also a key part of the annual strategic planning / budgeting process and give an overall picture of capital, liquidity and risk-return trade-offs. The key objective of the RAS is to:

- ensure that the Bank has sufficient resources to support its business at any given point in time and absorb stress events;
- set boundaries for the Bank's risk target setting;
- support the Bank's financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, the Bank creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk the Bank is willing to accept. In order to ensure that the Bank remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- RAS is green: The target risk profile is within the specified boundaries.
- RAS is amber: The undershooting or overshooting of a pre-defined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- RAS is red: The undershooting or overshooting of a pre-defined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.
In addition, supporting metrics and principles are defined by material risk type in the Bank Risk Strategy based on RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the Bank risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the Bank remains within its RAS.

Risk materiality assessment

The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both, quantitative and qualitative factors, which is conducted for each identified risk type the Bank faces.

The output of the risk materiality assessment is the set of material risks, which have to be quantified and covered by capital. It also includes other risk management practices to control and mitigate the identified risks (material or non-material).

Stress testing

Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99,9% confidence on one year horizon means an extreme loss that occurs once in thousand years. At this level the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the Bank’s positions, thus providing further assurance of internal capital adequacy. Should stress testing results show potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

Risk-bearing capacity calculation

The risk-bearing capacity calculation (’RCC’) is ultimately the tool to define capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are aggregated into a capital requirement and compared to the coverage potential and the Bank´s own funds. The integral forecast, risk appetite limit, as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors, Risk management committees and Supervisory board is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of risk limits’ utilization, potential losses in stress scenarios and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks) and in the context of Pillar 2, interest rate risks in the banking book, business risk, liquidity risk, residual credit risk and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.92 % confidence level. During the year 2021 the utilization of the economic capital was in the range 48 - 53%.

Other risks, namely credit concentration risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and / or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined with profit of the current year, considering subordinated liabilities and regulatory deductibles, as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the Bank’s operations.

Capital management

Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the Bank’s business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure day-to-day adherence to the approved risk profile and capital levels.

Risk planning and forecasting

The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both, forward- and backward-looking component, focusing on portfolio and economic environment changes.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Strategic Risk Management and Accounting and Controlling.

24. Own funds and capital requirements

Regulatory scope of application

Hereby Slovenská sporiteľňa, a.s. fulfils the disclosure requirements according to the Capital Requirements Regulation issued by European Parliament and Council (EU) no.575/2013 (CRR) and Articles 437 (1) (a), (d) and (e) CRR.

Regulatory requirements

Since 1 January 2014 the Bank has been calculating the regulatory capital and the regulatory capital requirements according to the CRR and the Capital Requirement Directive issued by European Parliament and Council (EU) no.36/2013 (CRD). CRD was enacted in national legislation in Act on Banks 483/2001.

All requirements as defined in the CRR and technical standards issued by the European Banking Authority (EBA) are fully applied by the Bank for regulatory purposes and for the disclosure of regulatory information.

The Bank fulfilled regulatory capital requirements during the year 2021 and throughout the year 2020 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

Accounting principles

The financial and regulatory figures published by the Bank are based on IFRS regulatory capital components. Eligible capital components derive from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation for items where the regulatory treatment is not equal to the accounting requirements.

The unified reporting date of the individual financial statements and individual regulatory figures of the Bank is 31 December of each respective year.

Own funds

Own funds of an institution according to CRR consist of the sum of the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital of the institution. To assess the capital adequacy, each Tier of the capital after applying all prudential filters and deductions is given in relation to risk-weighted assets.

The regulatory minimum capital ratios including the capital buffers as of 31 December 2021 amount to:

- 9.98% for CET1 (CET1 Pillar 1 requirement 4.5%, capital conservation buffer 2.5%, systemic risk buffer 1%, Other Systemic Important Institution (O-SII) buffer 1% and countercyclical capital buffer specific for the bank 0.98%),
- 11.48% for tier 1 capital (sum of CET1 and AT1)
- 13.48% for total own funds.

Capital buffer requirements are set out in Act on Banks 483/2001

- capital conservation buffer §33b
- Global Systemic Important Institution (G-SII) §33a, §33d ods. 5
- Other Systemic Important Institution (O-SII) buffer §33a, §33d ods. 6
- systemic risk buffer §33a, §33e
- countercyclical buffer §33a, §33c

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

The regulatory minimum capital ratios including the capital buffers and SREP requirements as of 31 December 2021 amount to:

- a CET1 requirement of 10.82%, (Pillar 1 requirement of 4.5%, combined capital buffers of 5.48% and 56.25% of 1.5% Pillar 2 requirement)
- a T1 requirement of 12.61% (Pillar 1 T1 requirement of 6%, combined capital buffers of 5.48% and 75% of 1.5% Pillar 2 requirement)
- a total own funds requirement of 14.98% (Pillar 1 own funds requirement of 8%, combined capital buffers of 5.48% and 1.5% Pillar 2 requirement).

According to SREP, the bank is expected to meet a Pillar 2 Guidance (P2G) of 1.0%. The Pillar 2 Guidance is not MDA (maximum distributable amount) relevant.

	31.12.2020	31.12.2021
Pillar 1		
Minimum CET1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirements	8.00%	8.00%
Combined buffer requirement (CBR)	5.48%	5.48%
Capital conservation buffer	2.50%	2.50%
Institution-specific countercyclical capital buffer	0.98%	0.98%
Systemic risk buffer (SRB)	1.00%	1.00%
O-SII capital buffer	1.00%	1.00%
Minimum CET 1 requirement (incl. CBR)	9.98%	9.98%
Minimum Tier 1 requirement (incl. CBR)	11.48%	11.48%
Minimum Own Funds requirement (incl. CBR)	13.48%	13.48%
Pillar2		
Minimum CET1 requirement	0.84%	0.84%
Minimum T1 requirement	1.13%	1.13%
Minimum Own Funds requirement	1.50%	1.50%
Pillar 2 requirement (P2R)	1.50%	1.50%
Total CET1 requirement for Pillar 1 and Pillar 2	**10.82%**	**10.82%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**12.61%**	**12.61%**
Total Own Funds requirement for Pillar 1 and Pillar 2	**14.98%**	**14.98%**

The following table shows the structure of own funds according to implementing technical standards EBA with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (the positions not relevant for the Bank were excluded):

EUR ths.	Article pursuant to CRR	31.12.2020	31.12.2021
Common equity tier 1 capital: instruments and reserves (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	212,000	212,000
Retained earnings	26 (1) (c), 26 (2)	1,131,950	1,193,241
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	(1,692)	(1,750)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	(630)	(947)
Value adjustments due to the requirements for prudent valuation	34, 105	(3,441)	(5,894)
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(18,947)	(16,068)
Securitisation positions which can alternatively be subject to a 1.250% risk weight	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	-	(12,999)
Insufficient coverage for non-performing exposures	36 (1) (m)	-	(32)
Additional deductions of CET1 Capital due to Article 3 CRR	3	-	(222)
Development of unaudited risk provisions during the year (EU No 183/2014)		(107,939)	(1,099)
Common equity tier 1 capital (CET1)	**50**	**1,211,300**	**1,366,230**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	300,000	380,000
Additional tier 1 capital (AT1)	**61**	**300,000**	**380,000**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**1,511,300**	**1,746,230**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	25,699	19,686
IRB excess of provisions over expected losses eligible	62 (d)	45,527	44,489
T2 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 66 (d), 68, 69, 79	(5,248)	(5,240)
Tier 2 capital (T2)	**71**	**65,978**	**58,935**
Total own funds	**4 (1) (118) and 72**	**1,577,279**	**1,805,165**
Capital requirement	**92 (3), 95, 96, 98**	**691,094**	**713,660**
CET1 capital ratio	**92 (2) (a)**	**14.02%**	**15.32%**
Tier 1 capital ratio	**92 (2) (b)**	**17.49%**	**19.57%**
Total capital ratio	**92 (2) (c)**	**18.26%**	**20.24%**

The Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

		31.12.2020		31.12.2021	
EUR ths.	Article pursuant to CRR	Total risk	Capital requirement	Total risk	Capital requirement
Total Risk Exposure Amount	**92 (3), 95, 96, 98**	**8,638,669**	**691,094**	**8,920,754**	**713,660**
Risk weighted assets (credit risk)	92 (3) (a) (f)	7,768,331	621,467	8,061,816	644,945
Standardised approach		180,445	14,436	543,422	43,474
IRB approach		7,587,886	607,031	7,414,859	593,188
Securitisation positions		-	-	103,535	8,283
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	389	31	2,790	223
Operational Risk	92 (3) (e), 92 (4) (b)	845,439	67,635	846,590	67,727
Exposure for CVA	92 (3) (d)	24,509	1,961	9,558	765
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	-	-	-	-

The Bank uses AMA model for calculation of RWA and capital requirements arising from operational risk. The calculation is performed on ERSTE Group level.

25. Credit risk

Credit risk arises in the Bank's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and credit losses expected if default occurs either within 1 year (Stage 1) or at any time until maturity (Stage 2).

Stage 1 credit losses apply to non-defaulted credit risk exposures without significant increase in credit risk (SICR) since inception, whilst Stage 2 credit losses apply to non-defaulted credit risk exposures for which SICR is observed at the reporting date. It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward-looking information is also considered in the calculation of credit risk.

Operative credit decisions are made by the credit risk management units.

In contrast to large corporates, banks and governments managing credit risk in retail and SME involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs, or micro and small companies. Credit risk related to retail and SME loan portfolios is managed at bank and group level with a common interest in order to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities and supported by underlying profitability.

Internal rating system

The Bank has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review).

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and risk-weighted assets under Pillar 1 and 2.

The Bank uses the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the Bank's assessment of the economic capital requirements according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behaviour and, where applicable, credit bureau information, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities).

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows a group-wide methodological standard and utilises relevant data covering local market. In this way, the Bank ensures the availability of rating models with the best possible prediction and discriminatory ability across its core regions.

All credit risk rating models are validated on the ongoing basis. Model Validation employs qualitative as well as quantitative validation methods to challenge conceptual soundness, performance and model use aspects. The validation outcomes are approved by the respective model committees and shared with the regulatory bodies. In addition to the validation process, the Bank applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

Credit risk classification

For the disclosure of asset quality (e.g. in this document and to the regulatory bodies) the Bank assigns each customer to one of the following four risk categories:

Low risk
Typically regional customers with well-established and rather long-standing relationships with SLSP or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention
Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term to the Bank. Retail clients with possible payment problems in the past triggering early collection reminders from the Bank side. These clients typically have a good recent payment history.

Substandard
The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing
There are exposure meeting criteria according to default definition. The Bank applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.
Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Credit risk review and monitoring

Retail Credit Risk Management as well as Credit Risk Control in cooperation with Corporate Risk Management conduct periodical reviews of the loan portfolio to ensure an adequate portfolio quality.

All credit limits and the transactions booked within the limits are reviewed at least once a year. Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded.
A group-wide standardised early warning monitoring process is implemented to proactively identify negative developments. The early warning monitoring process for corporate clients is managed by Corporate and Retail Credit Risk Management for respective segments. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed and adequate risk mitigating actions are taken if deemed necessary. Watch list review meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures. Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Adverse portfolio developments regarding the non-performing and substandard loans portfolio of the Bank are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - other demand deposits;
- financial assets held for trading – derivatives (without equity instruments);
- non-trading financial assets at fair value through profit or loss (FVTPL) (without equity instruments);
- financial assets at fair value through other comprehensive income (FVTOCI) (without equity instruments);
- financial assets at amortised cost (AC);
- finance lease receivables;
- positive fair value of derivatives held for trading – hedge accounting;
- trade and other receivables;
- off-balance sheet positions (financial guarantees, irrevocable loan and other commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- credit loss allowances for financial assets;
- credit loss allowances for loan commitments and financial guarantees;
- provisions for other commitments;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between the 31 December 2020 and 31 December 2021, credit risk exposure increased from EUR 21.074 billion to EUR 22.597 billion. This is an increase of 7.23% or EUR 1.5 billion.

Reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure:

31.12.2021 EUR ths.	Gross carrying amount	Credit loss allowances					Net carrying amount
		Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	
Cash and cash balances - other demand deposits	9,658	-	-	-	-	-	9,658
Financial assets at amortised cost	19,849,966	40,664	111,187	157,658	21,919	-	19,518,537
Loans and advances to banks	50,025	42	-	-	-	-	49,983
Loans and advances to customers	15,887,047	39,860	110,713	157,658	21,919	-	15,556,896
of which: Lending for house purchase	9,361,376	18,419	21,341	65,073	459	-	9,256,084
of which: Credit for consumption	1,422,176	5,960	13,380	48,420	76	-	1,354,339
of which: Corporate loans and others	5,103,495	15,481	75,992	44,165	21,384	-	4,946,473
Debt securities	3,912,894	762	474	-	-	-	3,911,658
Finance lease receivables	238,772	1,245	506	3,586	-	-	233,435
Trade and other receivables	135,518	1,838	3	4,747	-	-	128,930
Non-trading financial assets at fair value through profit or loss - Debt securities	13,909	-	-	-	-	-	13,909
Financial assets - held for trading	47,874	-	-	-	-	-	47,874
Positive fair value of derivatives - hedge accounting	16,454	-	-	-	-	-	16,454
Total credit risk exposure on-balance	**20,312,151**	**43,747**	**111,696**	**165,991**	**21,919**	**-**	**19,968,797**
Off-balance	2,284,714	5,358	7,444	572	11,277	1,134	2,258,929
Total credit risk exposure	**22,596,865**	**49,105**	**119,140**	**166,563**	**33,196**	**1,134**	**22,227,726**

Allocation of credit loss allowances is affected by the moratoria of instalments related to COVID-19. The Bank allocated credit loss allowances for the customers with higher risk profile based on their ratings and in case of corporates, the industry was also used. More detailed information about COVID-19 is provided in chapter Covid-19.

31.12.2020 EUR ths.	Gross carrying amount	Credit loss allowances					Net carrying amount
		Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	
Cash and cash balances - other demand deposits	11,023	-	-	-	-	-	11,023
Financial assets at amortised cost	18,666,495	30,403	126,973	166,302	57,353	-	18,285,464
Loans and advances to banks	49	0	0	-	-	-	49
Loans and advances to customers	14,986,196	29,858	126,973	166,302	57,353	-	14,605,711
of which: Lending for house purchase	8,618,370	14,480	29,515	61,976	141	-	8,512,258
of which: Credit for consumption	1,587,560	3,020	18,440	62,702	85	-	1,503,312
of which: Corporate loans and others	4,780,266	12,357	79,017	41,624	57,128	-	4,590,141
Debt securities	3,680,250	546	-	-	-	-	3,679,704
Finance lease receivables	246,820	426	1,185	4,198	-	-	241,012
Trade and other receivables	86,333	435	9	4,293	-	-	81,597
Non-trading financial assets at fair value through profit or loss - 'Debt securities	7,740	-	-	-	-	-	7,740
Financial assets - held for trading	59,994	-	-	-	-	-	59,994
Positive fair value of derivatives - hedge accounting	34,345	-	-	-	-	-	34,345
Total credit risk exposure on-balance	**19,112,750**	**31,264**	**128,166**	**174,792**	**57,353**	**-**	**18,721,175**
Off-balance	1,961,286	3,813	11,657	539	274	832	1,944,169
Total credit risk exposure	**21,074,036**	**35,077**	**139,823**	**175,331**	**57,628**	**832**	**20,665,344**

Stage 1 and Stage 2 comprise not impaired credit risks while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated.

The non-defaulted part of POCI amounted to EUR 107.33 million (2020: EUR 24.63 million), the defaulted part to EUR 5.71 million (2020: EUR 108.817 million).

On the next pages the credit risk exposure is presented according to the following criteria:

- counterparty FINREP sector and financial instrument;
- financial instrument and risk category;
- financial instrument and IFRS 9 stage;
- industry and financial instrument;
- industry and risk category;
- industry and IFRS 9 stage;
- region and financial instrument;
- region and risk category;
- region and IFRS 9 stage;
- impairment view;
- neither past due, not impaired;
- Basel 3 exposure class and financial instrument.

Credit risk exposure by counterparty finrep sector and financial instrument:

EUR ths.	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
31.12.2021							
Cash and cash balances - other demand deposits	-	-	9,658	-	-	-	9,658
Financial assets at amortised cost	-	3,890,122	230,139	148,345	4,212,509	11,368,851	19,849,966
Loans and advances to banks	-	-	50,025	-	-	-	50,025
Loans and advances to customers	-	285,411	-	123,036	4,109,749	11,368,851	15,887,047
of which: Lending for house purchase	-	-	-	-	-	9,361,376	9,361,376
of which: Credit for consumption	-	-	-	-	-	1,422,176	1,422,176
of which: Corporate loans and others	-	285,411	-	123,036	4,109,749	585,299	5,103,495
Debt securities	-	3,604,711	180,114	25,309	102,760	-	3,912,894
Finance lease receivables	-	1,329	-	37	234,051	3,355	238,772
Trade and other receivables	-	521	1,857	2,457	130,682	1	135,518
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	7,913	5,996	-	13,909
Derivatives - held for trading	-	-	7,048	603	40,191	32	47,874
Positive fair value of derivatives - hedge accounting	-	-	16,454	-	-	-	16,454
Total credit risk exposure on-balance	**-**	**3,891,972**	**265,156**	**159,355**	**4,623,429**	**11,372,239**	**20,312,151**
Off-balance	-	55,902	45,385	86,503	1,566,722	530,202	2,284,714
Total credit risk exposure	**-**	**3,947,874**	**310,541**	**245,858**	**6,190,151**	**11,902,441**	**22,596,865**

EUR ths.	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Households	Total
31.12.2020							
Cash and cash balances - other demand deposits	-	-	11,023	-	-	-	11,023
Financial assets at amortised cost	-	3,643,677	183,023	114,703	3,952,741	10,772,351	18,666,495
Loans and advances to banks	-	-	49	-	-	-	49
Loans and advances to customers	-	271,925	-	104,572	3,837,348	10,772,351	14,986,196
of which: Lending for house purchase	-	-	-	-	-	8,618,370	8,618,370
of which: Credit for consumption	-	-	-	-	-	1,587,560	1,587,560
of which: Corporate loans and others	-	271,925	-	104,572	3,837,348	566,421	4,780,266
Debt securities	-	3,371,752	182,974	10,131	115,393	-	3,680,250
Finance lease receivables	-	510	-	102	240,381	5,826	246,820
Trade and other receivables	-	-	2,013	1,663	82,226	431	86,333
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	7,740	-	-	7,740
Derivatives - held for trading	-	-	8,347	16	51,539	93	59,994
Positive fair value of derivatives - hedge accounting	-	-	34,345	-	0	-	34,345
Total credit risk exposure on-balance	**-**	**3,644,188**	**238,751**	**124,224**	**4,326,886**	**10,778,701**	**19,112,750**
Off-balance	-	33,299	44,914	9,611	1,423,288	450,174	1,961,286
Total credit risk exposure	**-**	**3,677,486**	**283,665**	**133,834**	**5,750,175**	**11,228,875**	**21,074,036**

Credit risk exposure by financial instrument and risk category:

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2021					
Cash and cash balances -other demand deposits	9,658	-	-	-	9,658
Financial assets at amortised cost	17,341,501	1,320,524	904,006	283,935	19,849,966
Loans and advances to banks	50,023	2	-	-	50,025
Loans and advances to customers	13,378,584	1,320,522	904,006	283,935	15,887,047
of which: Lending for house purchase	8,332,186	586,927	302,258	140,005	9,361,376
of which: Credit for consumption	1,093,989	162,783	103,984	61,420	1,422,176
of which: Corporate loans and others	3,952,409	570,812	497,764	82,510	5,103,495
Debt securities	3,912,894	-	-	-	3,912,894
Finance lease receivables	200,787	23,287	8,372	6,326	238,772
Trade and other receivables	93,247	8,830	28,581	4,860	135,518
Non-trading financial assets at fair value through profit or loss - 'Debt securities	6,479	-	7,430	-	13,909
Derivatives - held for trading	11,500	35,590	784	-	47,874
Positive fair value of derivatives - hedge accounting	16,454	-	-	-	16,454
Total credit risk exposure on-balance	**17,679,626**	**1,388,231**	**949,173**	**295,121**	**20,312,151**
Off-balance	1,910,768	218,492	153,917	1,537	2,284,714
Total credit risk exposure	**19,590,394**	**1,606,723**	**1,103,090**	**296,658**	**22,596,865**

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2020					
Cash and cash balances - other demand deposits	11,023	-	-	-	11,023
Financial assets at amortised cost	15,936,299	1,193,277	1,185,971	350,948	18,666,495
Loans and advances to banks	47	2	-	-	49
Loans and advances to customers	12,256,002	1,193,275	1,185,971	350,948	14,986,196
of which: Lending for house purchase	7,682,482	555,906	240,974	139,008	8,618,370
of which: Credit for consumption	1,194,071	195,969	115,282	82,239	1,587,561
of which: Corporate loans and others	3,379,449	441,400	829,715	129,701	4,780,265
Debt securities	3,680,250	-	-	-	3,680,250
Finance lease receivables	192,425	29,671	15,887	8,837	246,820
Trade and other receivables	63,337	4,208	14,389	4,399	86,333
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	7,740	-	7,740
Derivatives - held for trading	13,130	41,860	5,003	1	59,994
Positive fair value of derivatives - hedge accounting	34,345	-	-	-	34,345
Total credit risk exposure on-balance	**16,250,559**	**1,269,016**	**1,228,990**	**364,185**	**19,112,750**
Off-balance	1,518,402	169,759	226,478	46,647	1,961,286
Total credit risk exposure	**17,768,961**	**1,438,775**	**1,455,468**	**410,832**	**21,074,036**

Credit risk exposure by financial instrument and IFRS 9 stage:

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Cash and cash balances - other demand deposits	9,658	-	-	-	-	9,658
Financial assets at amortised cost	17,564,561	1,935,073	278,608	71,724	-	19,849,966
Loans and advances to banks	50,023	2	-	-	-	50,025
Loans and advances to customers	13,611,010	1,925,705	278,608	71,724	-	15,887,047
of which: Lending for house purchase	8,895,446	325,032	138,977	1,921	-	9,361,376
of which: Credit for consumption	1,213,055	147,615	61,328	178	-	1,422,176
of which: Corporate loans and others	3,502,509	1,453,058	78,303	69,625	-	5,103,495
Debt securities	3,903,528	9,366	-	-	-	3,912,894
Finance lease receivables	208,696	23,750	6,326	-	-	238,772
Trade and other receivables	129,500	1,158	4,860	-	-	135,518
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	13,909	13,909
Derrivatives - held for trading	-	-	-	-	47,874	47,874
Positive fair value of derivatives - hedge accounting	-	-	-	-	16,454	16,454
Total credit risk exposure on-balance	**17,912,415**	**1,959,981**	**289,794**	**71,724**	**78,237**	**20,312,151**
Off-balance	1,520,938	170,429	1,099	41,320	550,928	2,284,714
Total credit risk exposure	**19,433,353**	**2,130,410**	**290,893**	**113,044**	**629,165**	**22,596,865**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2020						
Cash and cash balances - other demand deposits	11,023	-	-	-	-	11,023
Financial assets at amortised cost	15,993,783	2,301,151	287,784	83,777	-	18,666,495
Loans and advances to banks	47	2	-	-	-	49
Loans and advances to customers	12,313,486	2,301,149	287,784	83,777	-	14,986,196
of which: Lending for house purchase	7,927,682	550,414	138,640	1,634	-	8,618,370
of which: Credit for consumption	1,247,428	257,796	82,135	201	-	1,587,560
of which: Corporate loans and others	3,138,376	1,492,939	67,009	81,942	-	4,780,266
Debt securities	3,680,250	-	-	-	-	3,680,250
Finance lease receivables	150,316	87,668	8,837	-	-	246,821
Trade and other receivables	80,458	1,475	4,399	-	-	86,332
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	7,740	7,740
Derrivatives - held for trading	-	-	-	-	59,994	59,994
Positive fair value of derivatives - hedge accounting	-	-	-	-	34,345	34,345
Total credit risk exposure on-balance	**16,235,580**	**2,390,294**	**301,020**	**83,777**	**102,079**	**19,112,750**
Off-balance	1,221,327	318,486	926	46,025	374,522	1,961,286
Total credit risk exposure	**17,456,907**	**2,708,780**	**301,946**	**129,802**	**476,601**	**21,074,036**

“Not subject to IFRS 9 impairment” means that those balance sheet items are out of IFRS9 rules.

Credit risk exposure by industry and financial instrument:

31.12.2021		Financial assets at amortised cost										
			Loans and advances to customers									
EUR ths.	Cash and cash balances - other demand deposits	Loans and advances to banks	of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others	Debt securities	Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - 'Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
Agriculture, forestry and fishing	-	-	-	-	146,784	-	18,178	272	-	26	28,626	193,886
Mining	-	-	-	-	3,501	-	1,540	71	-	7	29,508	34,627
Manufacturing	-	-	-	-	847,631	9,356	45,883	83,973	-	419	381,947	1,369,209
Electricity, gas, steam and cold air supply, water supply	-	-	-	-	483,663	5,010	6,082	1,696	-	35,523	122,460	654,434
Construction	-	-	-	-	259,894	-	4,419	3,438	-	48	285,854	553,653
thereof: Development of building projects	-	-	-	-	24,229	-	-	-	-	-	227	24,456
Trade	-	-	-	-	657,773	-	14,209	34,538	5,996	677	236,654	949,847
Transport and storage, Information and communication	-	-	-	-	405,678	88,384	133,298	1,970	-	1,299	156,887	787,516
Hotels and restaurants	-	-	-	-	89,272	-	149	84	-	401	6,264	96,170
Financial and insurance services	9,658	50,025	-	-	123,703	205,423	37	4,313	7,913	24,106	130,912	556,090
thereof: Holding companies	-	-	-	-	75,684	15,168	14	454	-	60	67,984	159,364
Real estate and housing	-	-	-	-	1,431,220	-	1,165	321	-	1,765	297,232	1,731,703
Professional, scientific, technical, administrative and other activities	-	-	-	-	172,859	10	6,049	4,160	-	3	73,829	256,910
Public administration and defense	-	-	-	-	282,260	3,604,711	1,323	-	-	-	55,845	3,944,139
Education, health and art, entertainment and recreation	-	-	-	-	131,576	-	6,286	682	-	22	12,227	150,793
Private households	-	-	9,361,376	1,422,176	67,415	-	154	-	-	32	466,433	11,317,586
Other	-	-	-	-	266	-	-	-	-	-	36	302
Total Credit risk exposure	**9,658**	**50,025**	**9,361,376**	**1,422,176**	**5,103,495**	**3,912,894**	**238,772**	**135,518**	**13,909**	**64,328**	**2,284,714**	**22,596,865**

31.12.2020 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - 'Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers			Debt securities						
			of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others							
Agriculture, forestry and fishing	-	-	-	-	143,880	-	25,066	360	-	25	23,600	192,931
Mining	-	-	-	-	46,683	-	1,927	136	-	12	21,289	70,047
Manufacturing	-	-	-	-	994,434	9,356	49,226	43,784	-	1,081	330,122	1,428,003
Electricity, gas, steam and cold air supply, water supply	-	-	-	-	437,725	-	4,339	882	-	41,957	108,828	593,731
Construction	-	-	-	-	199,723	-	4,564	2,847	-	135	237,579	444,848
thereof: Development of building projects	-	-	-	-	25,780	-	-	-	-	-	85	25,865
Trade	-	-	-	-	515,585	-	15,177	26,238	-	813	220,774	778,587
Transport and storage, Information and communication	-	-	-	-	429,475	90,876	129,625	4,042	-	2,165	154,878	811,061
Hotels and restaurants	-	-	-	-	87,558	-	190	89	-	771	11,464	100,072
Financial and insurance services	11,023	49	-	-	102,836	208,265	136	3,676	7,740	42,708	97,606	474,039
thereof: Holding companies	-	-	-	-	39,604	15,160	85	568	-	-	49,136	104,553
Real estate and housing	-	-	-	-	1,223,333	-	1,526	338	-	4,510	245,169	1,474,876
Professional, scientific, technical, administrative and other activities	-	-	-	-	161,197	-	7,804	3,270	-	19	72,720	245,010
Public administration and defense	-	-	-	-	271,614	3,371,753	510	-	-	-	33,299	3,677,176
Education, health and art, entertainment and recreation	-	-	-	-	99,767	-	6,590	671	-	51	13,659	120,738
Private households	-	-	8,618,370	1,587,560	66,079	-	140	-	-	92	390,236	10,662,477
Other	-	-	-	-	377	-	-	-	-	-	63	440
Total Credit risk exposure	**11,023**	**49**	**8,618,370**	**1,587,560**	**4,780,266**	**3,680,250**	**246,820**	**86,333**	**7,740**	**94,339**	**1,961,286**	**21,074,036**

Credit risk exposure by industry and risk category:

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2021					
Agriculture, forestry and fishing	110,946	21,825	40,204	20,911	193,886
Mining	34,241	216	170	-	34,627
Manufacturing	1,177,673	100,589	71,341	19,606	1,369,209
Electricity, gas, steam and cold air supply, water supply	455,558	176,258	21,843	775	654,434
Construction	359,298	129,110	56,202	9,043	553,653
thereof: Development of building projects	14,551	62	9,840	3	24,456
Trade	753,700	127,604	48,043	20,500	949,847
Transport and storage, Information and communication	726,692	46,106	10,132	4,586	787,516
Hotels and restaurants	40,471	8,045	41,913	5,741	96,170
Financial and insurance services	497,095	46,650	12,265	80	556,090
thereof: Holding companies	118,605	40,305	454	-	159,364
Real estate and housing	1,354,094	46,162	329,922	1,525	1,731,703
Professional, scientific, technical, administrative and other activities	199,427	26,825	23,973	6,685	256,910
Public administration and defense	3,899,651	42,102	2,386	-	3,944,139
Education, health and art, entertainment and recreation	127,796	12,460	9,695	842	150,793
Private households	9,853,549	822,672	435,001	206,364	11,317,586
Other	203	99	-	-	302
Total Credit risk exposure	**19,590,394**	**1,606,723**	**1,103,090**	**296,658**	**22,596,865**

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2020					
Agriculture, forestry and fishing	91,517	23,895	51,508	26,011	192,931
Mining	69,837	104	106	-	70,047
Manufacturing	1,236,854	82,378	103,170	5,600	1,428,002
Electricity, gas, steam and cold air supply, water supply	407,736	160,807	24,279	908	593,730
Construction	248,593	79,505	112,411	4,339	444,848
thereof: Development of building projects	14,901	47	10,913	3	25,864
Trade	607,571	105,454	41,047	24,515	778,587
Transport and storage, Information and communication	731,797	55,950	19,473	3,843	811,063
Hotels and restaurants	31,991	9,078	57,379	1,624	100,072
Financial and insurance services	455,604	9,280	9,056	99	474,039
thereof: Holding companies	96,447	7,770	336	-	104,553
Real estate and housing	739,425	27,519	602,987	104,945	1,474,876
Professional, scientific, technical, administrative and other activities	144,242	41,270	47,287	12,211	245,010
Public administration and defense	3,675,357	967	851	-	3,677,175
Education, health and art, entertainment and recreation	70,901	40,357	9,171	308	120,737
Private households	9,257,523	801,956	376,573	226,428	10,662,480
Other	14	254	171	-	439
Total Credit risk exposure	**17,768,962**	**1,438,774**	**1,455,469**	**410,831**	**21,074,036**

Credit risk exposure by industry and IFRS9 stage:

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Agriculture, forestry and fishing	120,025	50,662	20,451	1,382	1,366	193,886
Mining	29,905	4,485	-	-	237	34,627
Manufacturing	986,723	253,323	19,348	851	108,964	1,369,209
Electricity, gas, steam and cold air supply, water supply	451,766	133,547	775	-	68,346	654,434
Construction	263,897	92,211	8,684	391	188,470	553,653
thereof: Development of building projects	983	23,470	3	-	-	24,456
Trade	633,847	226,280	18,332	6,196	65,192	949,847
Transport and storage, Information and communication	662,969	80,497	4,403	207	39,440	787,516
Hotels and restaurants	2,934	74,120	5,740	12,975	401	96,170
Financial and insurance services	378,487	40,549	79	20	136,955	556,090
thereof: Holding companies	74,514	40,306	-	-	44,544	159,364
Real estate and housing	1,115,038	525,177	1,524	86,828	3,136	1,731,703
Professional, scientific, technical, administrative and other activities	137,369	101,758	6,231	975	10,577	256,910
Public administration and defense	3,937,663	529	-	-	5,947	3,944,139
Education, health and art, entertainment and recreation	91,985	57,821	842	43	102	150,793
Private households	10,620,443	489,451	204,484	3,176	32	11,317,586
Other	302	-	-	-	-	302
Total Credit risk exposure	**19,433,353**	**2,130,410**	**290,893**	**113,044**	**629,165**	**22,596,865**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2020						
Agriculture, forestry and fishing	106,828	58,944	25,977	954	227	192,930
Mining	66,454	3,500	-	-	92	70,046
Manufacturing	816,909	536,018	4,161	1,934	68,981	1,428,003
Electricity, gas, steam and cold air supply, water supply	414,016	115,275	908	-	63,530	593,729
Construction	231,513	66,423	4,050	581	142,282	444,849
thereof: Development of building projects	14,914	10,948	3	-	-	25,865
Trade	439,282	273,780	22,791	4,615	38,120	778,588
Transport and storage, Information and communication	553,558	226,218	3,532	310	27,445	811,063
Hotels and restaurants	2,701	80,860	1,512	14,170	828	100,071
Financial and insurance services	345,885	23,997	99	20	104,039	474,040
thereof: Holding companies	72,528	23,415	-	-	8,609	104,552
Real estate and housing	1,023,561	338,304	2,043	102,911	8,057	1,474,876
Professional, scientific, technical, administrative and other activities	103,452	105,866	11,513	1,321	22,857	245,009
Public administration and defense	3,676,286	889	-	-	-	3,677,175
Education, health and art, entertainment and recreation	68,278	52,078	308	23	51	120,738
Private households	9,607,937	826,436	225,052	2,963	92	10,662,480
Other	247	192	-	-	-	439
Total Credit risk exposure	**17,456,907**	**2,708,780**	**301,946**	**129,802**	**476,601**	**21,074,036**

Credit risk exposure by region and financial instrument:

31.12.2021 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - 'Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers			Debt securities						
			of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others							
Slovakia	-	50,008	9,317,001	1,416,897	5,052,736	3,558,247	238,772	90,296	7,419	40,346	2,204,448	21,976,170
Central and Eastern Europe	5,486	14	17,157	2,856	20,546	42,862	-	18,259	-	19,054	66,089	192,323
Austria	5,261	11	2,286	332	12	-	-	2,319	-	18,548	14,126	42,895
Czech Republic	-	3	4,626	289	20,432	42,862	-	12,103	-	479	50,499	131,293
Hungary	208	-	145	137	20	-	-	3,082	-	27	1,203	4,822
Croatia	14	-	-	53	1	-	-	406	-	-	5	479
Romania	3	-	495	120	17	-	-	342	-	-	16	993
Serbia	-	-	9,605	1,925	64	-	-	7	-	-	240	11,841
Other EU	3,961	1	2,127	186	28,616	306,707	-	23,385	-	4,928	11,597	381,508
Other industrialised countries	211	-	2,727	182	1,517	5,078	-	2,133	6,490	-	286	18,624
Emerging markets	-	2	22,364	2,055	80	-	-	1,445	-	-	2,294	28,240
Total	**9,658**	**50,025**	**9,361,376**	**1,422,176**	**5,103,495**	**3,912,894**	**238,772**	**135,518**	**13,909**	**64,328**	**2,284,714**	**22,596,865**

31.12.2020 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - 'Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers			Debt securities						
			of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others							
Slovakia	-	29	8,613,331	1,586,587	4,727,261	3,336,786	246,820	57,813	1,718	51,544	1,926,373	20,548,262
Central and Eastern Europe	10,837	10	2,050	358	12,257	46,878	-	15,096	-	36,545	27,459	151,490
Austria	7,681	8	39	47	2	-	-	3,475	-	36,442	9,861	57,555
Czech Republic	2,979	2	1,359	206	12,235	46,878	-	9,443	-	103	16,688	89,893
Hungary	169	-	114	17	18	-	-	1,633	-	-	901	2,852
Croatia	5	-	110	39	-	-	-	214	-	-	1	369
Romania	3	-	256	20	1	-	-	253	-	-	5	538
Serbia	-	-	172	29	1	-	-	78	-	-	3	283
Other EU	144	8	1,174	169	40,121	291,508	-	12,123	12	6,250	6,899	358,408
Other industrialised countries	42	-	274	95	602	5,078	-	147	6,010	-	4	12,252
Emerging markets	-	2	1,541	351	25	-	-	1,154	-	-	551	3,624
Total	**11,023**	**49**	**8,618,370**	**1,587,560**	**4,780,266**	**3,680,250**	**246,820**	**86,333**	**7,740**	**94,339**	**1,961,286**	**21,074,036**

Credit risk exposure by region and risk category:

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2021					
Slovakia	19,044,225	1,566,380	1,074,389	291,176	21,976,170
Central and Eastern Europe	174,586	5,809	6,542	5,386	192,323
Austria	42,377	4	511	3	42,895
Czech Republic	119,521	3,854	2,956	4,962	131,293
Hungary	3,319	13	1,461	29	4,822
Croatia	458	20	-	1	479
Romania	870	-	61	62	993
Serbia	8,041	1,918	1,553	329	11,841
Other EU	334,410	29,052	18,013	33	381,508
Other industrialised countries	16,465	9	2,143	7	18,624
Emerging markets	20,709	5,473	2,003	56	28,240
Total	**19,590,394**	**1,606,723**	**1,103,090**	**296,658**	**22,596,865**

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2020					
Slovakia	17,285,722	1,428,572	1,442,625	391,343	20,548,262
Central and Eastern Europe	145,981	750	4,413	346	151,490
Austria	57,541	-	14	-	57,555
Czech Republic	84,437	740	4,399	318	89,894
Hungary	2,840	10	-	2	2,852
Croatia	369	-	-	-	369
Romania	533	-	-	5	538
Serbia	261	-	-	21	282
Other EU	329,447	7,689	2,344	18,928	358,408
Other industrialised countries	6,031	8	6,010	203	12,252
Emerging markets	1,781	1,756	76	11	3,624
Total	**17,768,962**	**1,438,775**	**1,455,468**	**410,831**	**21,074,036**

Credit risk exposure by region and IFRS 9 stage:

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Slovakia	18,925,746	2,097,713	285,430	113,026	554,255	21,976,170
Central and Eastern Europe	133,088	2,144	5,369	17	51,705	192,323
Austria	10,106	352	3	2	32,432	42,895
Czech Republic	106,393	992	4,954	8	18,946	131,293
Hungary	4,440	27	25	3	327	4,822
Croatia	478	-	1	-	-	479
Romania	871	61	60	1	-	993
Serbia	10,800	712	326	3	-	11,841
Other EU	335,957	29,318	33	-	16,200	381,508
Other industrialised countries	11,848	264	7	-	6,505	18,624
Emerging markets	26,714	971	54	1	500	28,240
Total	**19,433,353**	**2,130,410**	**290,893**	**113,044**	**629,165**	**22,596,865**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2020						
Slovakia	17,053,457	2,682,779	301,364	110,897	399,765	20,548,262
Central and Eastern Europe	75,962	17,650	342	3	57,533	151,490
Austria	11,256	-	-	-	46,299	57,555
Czech Republic	60,821	17,522	315	3	11,234	89,895
Hungary	2,851	-	1	-	-	2,852
Croatia	241	128	-	-	-	369
Romania	532	-	5	-	-	537
Serbia	261	-	21	-	-	282
Other EU	318,608	8,079	26	18,902	12,793	358,408
Other industrialised countries	6,038	-	203	-	6,010	12,251
Emerging markets	2,842	272	11	-	500	3,625
Total	**17,456,907**	**2,708,780**	**301,946**	**129,802**	**476,601**	**21,074,036**

Credit risk exposure according to impairment view:

31.12.2021	Non-impaired loans								
EUR ths.	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due nor Impaired	Impaired loans	Total Credit risk exposure
Cash and cash balances - other demand deposits	-	-	-	-	-	-	9,658	-	9,658
Financial assets at amortised cost	355,861	329,821	14,564	6,624	3,163	1,688	19,210,171	283,935	19,849,966
Loans and advances to banks	46	45	-	-	-	-	49,980	-	50,025
Loans and advances to customers	355,815	329,776	14,564	6,624	3,163	1,688	15,247,297	283,935	15,887,047
of which: Lending for house purchase	101,844	87,703	7,582	2,971	2,209	1,379	9,119,527	140,005	9,361,376
of which: Credit for consumption	50,836	43,152	4,123	2,627	762	172	1,309,920	61,420	1,422,176
of which: Corporate loans and others	203,135	198,921	2,859	1,026	192	137	4,817,850	82,510	5,103,495
Debt securities	-	-	-	-	-	-	3,912,894	-	3,912,894
Finance lease receivables	6,305	6,289	15	-	-	-	226,139	6,326	238,772
Trade and other receivables	10,875	9,201	991	667	16	-	119,782	4,860	135,518
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	13,909	-	13,909
Financial assets - held for trading	-	-	-	-	-	-	47,874	-	47,874
Positive fair value of derivatives	-	-	-	-	-	-	16,454	-	16,454
Total credit risk exposure on-balance	**373,041**	**345,311**	**15,570**	**7,291**	**3,179**	**1,688**	**19,643,987**	**295,121**	**20,312,151**
Off-balance	-	-	-	-	-	-	2,283,231	1,483	2,284,714
Total credit risk exposure	**373,041**	**345,311**	**15,570**	**7,291**	**3,179**	**1,688**	**21,927,218**	**296,604**	**22,596,865**

31.12.2020	Non-impaired loans								
EUR ths.	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due nor Impaired	Impaired loans	Total Credit risk exposure
Cash and cash balances - other demand deposits	-	-	-	-	-	-	11,023	-	11,023
Financial assets at amortised cost	264,431	241,674	12,279	6,087	2,631	1,759	18,051,117	350,948	18,666,495
Loans and advances to banks	49	49	-	-	-	-	-	-	49
Loans and advances to customers	264,382	241,625	12,279	6,087	2,631	1,759	14,370,867	350,948	14,986,196
of which: Lending for house purchase	78,659	66,836	7,044	2,064	1,644	1,070	8,400,704	139,008	8,618,371
of which: Credit for consumption	48,831	42,445	3,526	1,692	851	318	1,456,490	82,239	1,587,559
of which: Corporate loans and others	136,892	132,344	1,709	2,331	136	371	4,513,673	129,701	4,780,266
Debt securities	-	-	-	-	-	-	3,680,250	-	3,680,250
Finance lease receivables	9,266	8,953	231	82	-	-	228,717	8,837	246,820
Trade and other receivables	6,677	4,975	1,339	211	153	-	75,257	4,399	86,333
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	7,740	-	7,740
Financial assets - held for trading	-	-	-	-	-	-	59,994	-	59,994
Positive fair value of derivatives	-	-	-	-	-	-	34,345	-	34,345
Total credit risk exposure on-balance	**280,374**	**255,602**	**13,849**	**6,380**	**2,784**	**1,759**	**18,468,193**	**364,184**	**19,112,750**
Off-balance	-	-	-	-	-	-	1,914,639	46,647	1,961,286
Total credit risk exposure	**280,374**	**255,602**	**13,849**	**6,380**	**2,784**	**1,759**	**20,382,832**	**410,831**	**21,074,036**

Credit quality for exposures, which are neither past due non impaired:

EUR ths.	Low Risk	Management attention	Substandard	Non-performing	Total
31.12.2021					
Cash and cash balances - other demand deposits	9,659	-	-	-	9,659
Financial assets at amortised cost	17,214,318	1,265,715	730,138	-	19,210,171
Loans and advances to banks	49,980	-	-	-	49,980
Loans and advances to customers	13,251,444	1,265,715	730,138	-	15,247,297
of which: Lending for house purchase	8,322,737	570,340	226,450	-	9,119,527
of which: Credit for consumption	1,090,934	156,115	62,871	-	1,309,920
of which: Corporate loans and others	3,837,773	539,260	440,817	-	4,817,850
Debt securities	3,912,894	-	-	-	3,912,894
Finance lease receivables	196,576	22,775	6,789	-	226,140
Trade and other receivables	84,919	8,050	26,813	-	119,782
Non-trading financial assets at fair value through profit or loss - 'Debt securities	6,479	-	7,430	-	13,909
Derivatives - held for trading	11,500	35,590	784	-	47,874
Positive fair value of derivatives - hedge accounting	16,454	-	-	-	16,454
Total credit risk exposure on-balance	**17,539,905**	**1,332,130**	**771,954**	**-**	**19,643,989**
Off-balance	1,910,767	218,492	153,917	53	2,283,229
Total credit risk exposure	**19,450,672**	**1,550,622**	**925,871**	**53**	**21,927,218**

EUR ths.	Low Risk	Management attention	Substandard	Non-performing	Total
31.12.2020					
Cash and cash balances - other demand deposits	11,023	-	-	-	11,023
Financial assets at amortised cost	15,887,033	1,147,192	1,016,892	-	18,051,117
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	12,206,783	1,147,192	1,016,892	-	14,370,867
of which: Lending for house purchase	7,676,067	541,466	183,172	-	8,400,705
of which: Credit for consumption	1,191,600	189,110	75,780	-	1,456,490
of which: Corporate loans and others	3,339,116	416,616	757,940	-	4,513,672
Debt securities	3,680,250	-	-	-	3,680,250
Finance lease receivables	188,395	26,437	13,886	-	228,718
Trade and other receivables	58,026	3,695	13,536	-	75,257
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	7,740	-	7,740
Derivatives - held for trading	13,131	41,860	5,003	-	59,994
Positive fair value of derivatives - hedge accounting	34,345	-	-	-	34,345
Total credit risk exposure on-balance	**16,191,953**	**1,219,184**	**1,057,057**	**-**	**18,468,194**
Off-balance	1,518,401	169,759	226,478	-	1,914,638
Total credit risk exposure	**17,710,354**	**1,388,943**	**1,283,535**	**-**	**20,382,832**

Credit risk exposure by Basel 3 exposure class and financial instrument:

EUR ths.	Sovereigns	Institutions	Corporates	Retail	Total
31.12.2021					
Cash and cash balances - other demand deposits	-	9,658	-	-	9,658
Financial assets at amortised cost	3,890,122	230,139	4,098,250	11,631,455	19,849,966
Loans and advances to banks	-	50,025	-	-	50,025
Loans and advances to customers	285,411	-	3,970,181	11,631,455	15,887,047
of which: Lending for house purchase	-	-	-	9,361,376	9,361,376
of which: Credit for consumption	-	-	-	1,422,176	1,422,176
of which: Corporate loans and others	285,411	-	3,970,181	847,903	5,103,495
Debt securities	3,604,711	180,114	128,069	-	3,912,894
Finance lease receivables	1,329	-	226,546	10,897	238,772
Trade and other receivables	522	-	134,850	146	135,518
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	13,909	-	13,909
Derivatives - held for trading	-	7,048	40,794	32	47,874
Positive fair value of derivatives - hedge accounting	-	16,454	-	-	16,454
Total credit risk exposure on-balance	**3,891,973**	**263,299**	**4,514,349**	**11,642,530**	**20,312,151**
Off-balance	55,902	45,390	1,581,614	601,808	2,284,714
Total credit risk exposure	**3,947,875**	**308,689**	**6,095,963**	**12,244,338**	**22,596,865**

EUR ths.	Sovereigns	Institutions	Corporates	Retail	Total
31.12.2020					
Cash and cash balances - other demand deposits	-	11,023	-	-	11,023
Financial assets at amortised cost	3,644,081	183,023	3,845,348	10,994,044	18,666,496
Loans and advances to banks	-	49	-	-	49
Loans and advances to customers	272,329	-	3,719,824	10,994,044	14,986,197
of which: Lending for house purchase	-	-	-	8,618,372	8,618,372
of which: Credit for consumption	-	-	-	1,587,560	1,587,560
of which: Corporate loans and others	272,329	-	3,719,824	788,112	4,780,265
Debt securities	3,371,752	182,974	125,524	-	3,680,250
Finance lease receivables	517	-	230,635	15,668	246,820
Trade and other receivables	330	2,013	83,344	646	86,333
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	7,740	-	7,740
Derivatives - held for trading	-	8,347	51,554	93	59,994
Positive fair value of derivatives - hedge accounting	-	34,345	-	-	34,345
Total credit risk exposure on-balance	**3,644,928**	**238,751**	**4,218,621**	**11,010,451**	**19,112,751**
Off-balance	33,299	44,919	1,362,531	520,536	1,961,285
Total credit risk exposure	**3,678,227**	**283,670**	**5,581,152**	**11,530,987**	**21,074,036**

Expected credit loss measurement

The general principles and standards for credit loss allowances are governed by internal policies in the Bank. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. In addition, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

Classification into stages and definition of credit-impaired financial instruments

There are three main stages outlined for expected credit loss (ECL) determination. The stages approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk (SICR) since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. 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.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2, depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in the Bank has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. The Bank generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition) and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favorable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Significant increase in credit risk determination

Assessment of significant increase in credit risk (SICR) of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria

Quantitative SICR indicators include adverse changes in annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a comparison of the current probability of failure and mix of relative and absolute change thresholds. The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level for each separate entity, as necessary, and are subject to initial and on-going validation.

Relative thresholds for SICR assessment by geographical operating segment

	Threshold interval (x times)	
	Min	Max
31.12.2021	1,13	4,08
31.12.2020	1,13	4,08

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR. These rules are applied primarily to leasing and factoring business receivables.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not positively concluded.

Qualitative criteria

Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related bank and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level. Bank introduced additional portfolio level SICR assessment criteria due to COVID-19 pandemic and related economic impacts. Please see Covid-19 disclosures in the chapter below.

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop

A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate). However, the discount rate for financial guarantees shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in Bank's implementation means using a risk free rate as a proxy.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The Banking criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band, and credit rating band. The bank is using rating method and product information to segment customers and assets into homogenous clusters to calculate collective credit loss allowances.

The calculation of credit loss allowances is done on a daily basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, the Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.
- EAD is based on the amounts Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations.
The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Bank's research department. Given multiple scenarios, the 'neutral' PDs (and, with a few exceptions, also LGDs) are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through-the-cycle observations immediately in year four.

Specific situation of the Covid-19 pandemic and extensive supporting measures, mainly moratoria, lead to the lagging of the macroeconomic reflection in credit risk parameters. Therefore, macroeconomic variables of 2020 were included as additional predictors for future values of credit risk parameters. Variables in year 2020 have same values across all three scenarios.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, the main indication of estimated economic development is the GDP development. We are disclosing sensitivity of the staging and ECL on macro scenarios in the Covid-19 section below.

Following factors, materializing at the end of 2021 led to assigning 40% probability of occurrence to baseline forecast that could not fully reflect them:

- new variant (omicron),
- increasing inflation through-the region with potential effect on the increasing interest rates and
- unstable development of the geo-political situation – conflict Ukraine/Russia – that can as well effect energy prices.

The specific situation of the Covid-19 pandemic and extensive supporting measures additionally lead to the lagging of the macroeconomic reflection in credit risk parameters. Therefore, macroeconomic variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Variables of crisis year 2020 have the same values across all three scenarios. They were updated during 2021 according to the latest statistical offices' updates and publications.

Below we are publishing scenarios used for ECL calculation and as well latest available GDP growth forecasts.

Baseline, upside and downside scenarios of GDP growth

31.12.2021

Parameter	Scenario	Weight	2020	2021	2022	2023
GDP - real growth (in %)	Macro down	43%	-4.8	-2.5	0.0	0.8
	Macro base	40%	-4.8	3.0	4.2	3.7
	Macro up	17%	-4.8	4.9	6.1	5.6
GDP - Nominal growth (in %)	Macro down	43%	-2.5	2.2	5.9	4.4
	Macro base	40%	-2.5	5.3	9.0	7.5
	Macro up	17%	-2.5	8.1	11.8	10.3
Unemployment rate (in %)	Macro down	43%	6.7	10.8	11.2	10.7
	Macro base	40%	6.7	7.0	6.4	5.7
	Macro up	17%	6.7	5.7	5.1	4.4
Inflation - CPI (in %)	Macro down	43%	1.6	2.1	1.1	1.4
	Macro base	40%	1.6	5.2	3.2	3.5
	Macro up	17%	1.6	6.3	4.3	4.6
Unemployment rate - shift 12 months (in %)	Macro down	43%	5.8	6.7	10.8	11.2
	Macro base	40%	5.8	6.7	7.0	6.4
	Macro up	17%	5.8	6.7	5.7	5.1
GDP - YtY (in %)	Macro down	43%	-7.3	2.3	2.5	0.9
	Macro base	40%	-7.3	7.8	1.2	-0.5
	Macro up	17%	-7.3	9.7	1.2	-0.5

31.12.2020

Parameter	Scenario	Weight	2020	2021	2022	2023
GDP - real growth (in %)	Macro down	40%	-7.1	-2.5	0.0	0.8
	Macro base	35%	-7.1	3.0	4.2	3.7
	Macro up	25%	-7.1	4.9	6.1	5.6
GDP - Nominal growth (in %)	Macro down	40%	-5.39	2.2	5.9	4.4
	Macro base	35%	-5.39	5.3	9	7.5
	Macro up	25%	-5.39	8.1	11.8	10.3
Unemployment rate (in %)	Macro down	40%	7.19	10.8	11.2	10.7
	Macro base	35%	7.19	7.0	6.4	5.7
	Macro up	25%	7.19	5.7	5.1	4.4
Inflation - CPI (in %)	Macro down	40%	1.49	2.1	1.1	1.4
	Macro base	35%	1.49	5.2	3.2	3.5
	Macro up	25%	1.49	6.3	4.3	4.6
Unemployment rate - shift 12 months (in %)	Macro down	40%	5.87	7.2	10.8	11.2
	Macro base	35%	5.87	7.2	7.0	6.4
	Macro up	25%	5.87	7.2	5.7	5.1
GDP - YtY (in %)	Macro down	40%	-8.93	4.6	2.5	0.9
	Macro base	35%	-8.93	10.1	1.2	-0.5
	Macro up	25%	-8.93	12.0	1.2	-0.5

In order to reflect on the higher volatility of macro-economic variables estimates and significantly higher downward risk of macro-economic recovery due to current developments of the Covid-19 pandemics we have introduced a conservative downside scenario with relatively high probability of occurrence as shown in the GDP overview table above.

Covid-19

The Covid-19 pandemic has been causing high uncertainty in the global economy and on the global markets. Social distancing rules and lockdown restrictions imposed by governments led to economic slow-down and a significant drop of revenues across industries. Unprecedented state aid packages (e.g. state guarantees, bridge financing, the state temporarily paying workers' salaries to avoid redundancies, hardship funds for one-person and micro businesses) and moratoria programs were introduced to support citizens and companies (similar measures have been introduced also for other markets where parent company of the Bank operates). While such measures mitigate the negative economic effects, they complicate a timely reflection of a potential deterioration of the loan portfolios.

Effect on customers

Immediately upon the crisis showing severe economic impacts in our region (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support Bank´s clients to the utmost extent, and on the other hand, manage the respective risks and bearing the responsibility of Bank towards all stakeholders in mind. In these circumstances, in order to minimize the medium- and long-term economic impacts of the efforts taken to contain the COVID-19 pandemic, Slovak government have implemented several support measures. These measures introduced in Act. 67/2020 include moratorium on payments of credit obligations (1. EBA-compliant legislative moratoria) or giving financial support through loans with state guarantee (2. Public guarantee schemes). In cases where clients did not meet all predefined criteria required by legislation, individual solutions could be agreed (3. Other Covid-19 related measures).

In order to qualify moratorium on payments as EBA-compliant moratoria several conditions must be met:

g) The moratorium was launched in response to the COVID-19 pandemic,
h) The moratorium has to be broadly applied,
i) The moratorium has to apply to a broad range of obligors,
j) The same moratorium offers the same conditions,
k) The moratorium changes only schedule of payments,
l) The moratorium does not apply to new loans granted after the launch of the moratorium.

Credit risk exposure of non-financial corporations by industry – measures applied in response to the COVID-19 crisis:

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2021			
Agriculture, forestry and fishing	-	179	6,393
Mining	-	-	719
Manufacturing	-	-	62,391
Electricity, gas, steam and cold air supply, water supply	-	-	2,935
Construction	4	18	35,210
Trade	-	194	61,793
Transport and storage, Information and communication	64	18	20,647
Hotels and restaurants	10	758	9,225
Financial and insurance services	-	-	-
Real estate and housing	1,266	-	4,268
Professional, scientific, technical, administrative and other activities	-	3	16,674
Public administration and defense	-	-	-
Education, health and art, entertainment and recreation	-	31	4,329
Total	1,344	1,201	224,584

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2020			
Agriculture, forestry and fishing	10,923	1,201	3,973
Mining	-	-	-
Manufacturing	35,408	30	38,181
Electricity, gas, steam and cold air supply, water supply	229	-	2,768
Construction	19,825	392	20,128
Trade	14,279	1,713	41,188
Transport and storage, Information and communication	18,845	63	14,195
Hotels and restaurants	11,227	11,440	7,066
Financial and insurance services	-	-	-
Real estate and housing	100,028	807	1,604
Professional, scientific, technical, administrative and other activities	6,231	83	7,860
Public administration and defense	-	-	-
Education, health and art, entertainment and recreation	3,818	11	1,940
Total	**220,813**	**15,740**	**138,903**

Loans and advances of non-financial corporations to which the measures applied in the response to Covid-19 were granted and are currently valid (have not been expired), amounted to EUR 2.5 million as of 31 December 2021 (excluding public guarantee schemes). Significant majority of the support measures expired not resulting in a severe negative effect on the portfolio quality.

Credit risk exposure of households and other financial institutions – measures applied in response to the COVID-19 crisis:

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2021			
Private households	82	45,869	10,206
Financial and insurance services	-	-	364
Total	**82**	**45,869**	**10,570**

EUR ths.	Loans and advances subject to EBA-compliant moratoria	Other loans and advances subject to Covid-19-related forbearance measures	Newly originated loans and advances subject to public guarantee schemes in the context of the Covid-19 crisis
31.12.2020			
Private households	994,091	78,152	6,918
Financial and insurance services	364	-	111
Total	**994,455**	**78,152**	**7,029**

Loans and advances of households to which the measures applied in the response to Covid-19 were granted and are currently valid (have not been expired), amounted to EUR 46 million (excluding public guarantee schemes), which is significantly lower than EUR 1.072 million as of 31 December 2020. Most of the measures expired during January and February 2021 not resulting in a severe negative effect on the portfolio quality.

For clients with expired measures and still having difficulties going back to normal payment calendar, the Bank provides opportunity to lower loan payments to 25% of original loan payment for 6 months. This lowering of loan payments will be subject to standard forbearance assessment.

Loans and advances to which the measures applied in the response to Covid-19 have been treated as modified from the view of IFRS 9. However the effect of the modified contractual cash flows discounted by original effective interest rate compared to net present value of original cash flows was considered as immaterial. Due to this the Bank does not recognize any modification gain or loss.

Effect on business of bank

In March 2020, Risk and Business divisions started a joint initiative aiming to quickly provide a harmonized guidance for a focused industry approach within Erste Group, reflecting the changed economic environment. Industries and sub-industries were categorized into critical, high, medium and low expected impacts due to Covid-19 creating an "Industry Heat Map". Critical and high industries equal to "High risk" category that is further used in tables presented below. The categorization is based on a combination of research material, feedback collected from client meetings and single name analyses, both centrally as well as in the entities. The Industry Heat Map is reassessed on quarterly basis.

Main drivers for assigning corresponding green (low impact), yellow (medium impact), amber (high impact) and red (critical impact) industry classification was the assessment of both, short-term as well as medium-term impacts of the crisis on the specific (sub)industry. E.g. a complete lock-down of businesses like hotels or passenger air transport resulted in "red" classification on short-term view and based on expected re-opening/recovery remained on "amber" or "red" or was assessed as "yellow" or "green" on medium-term view. A respective business and risk strategy for the (sub)industries was formulated based on the assessment. The assessed risk for the specific (sub)industry can lead to strategic recommendations (e.g. to temporarily limit financing for specific categories to existing clients only) and/or the revision of underwriting standards.

In order to address COVID-19 pandemic induced crisis, the Bank introduced COVID-19 SICR overlays (described in detail below in section Effect on Expected Credit Loss) where exposures were moved from Stage 1 to Stage 2 based on certain rules. In Q4 2021 the reassessment of Industry Heat Map led to a change in classification where almost all industries were assessed in better categories compared to 2020 with few exceptions where Covid still has a significant impact on their businesses, e.g. Hotels, Manufacturing.

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – industry heatmap:

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
31.12.2021								
Agriculture, forestry and fishing	120,025	50,662	20,451	1,382	192,521	1,366	193,887	17,460
Mining	29,904	4,485	-	-	34,388	237	34,625	161
Manufacturing	-	-	-	-	-	-	-	-
Electricity, gas, steam and cold air supply, water supply	986,723	253,323	19,348	851	1,260,244	108,964	1,369,209	21,885
Construction	5,902	7,155	11,972	3	25,032	50	25,082	2,511
thereof: Development of building projects	451,765	133,547	775	-	586,088	68,346	654,434	19,587
Trade	263,898	92,211	8,684	391	365,182	188,470	553,653	12,628
Transport and storage, Information and communication	633,847	226,280	18,332	6,196	884,655	65,192	949,847	30,043
Hotels and restaurants	73,443	114,596	8,853	1,035	197,927	6,279	204,206	13,395
Financial and insurance services	662,971	80,497	4,402	207	748,077	39,440	787,517	8,164
thereof: Holding companies	156	26,947	113	-	27,216	50	27,266	478
Real estate and housing	2,932	74,120	5,740	12,975	95,767	401	96,169	7,522
Professional, scientific, technical, administrative and other activities	2,932	74,120	5,740	12,975	95,767	401	96,169	7,522
Public administration and defense	378,488	40,549	79	20	419,137	136,955	556,091	3,376
Education, health and art, entertainment and recreation	1,115,038	525,176	1,525	86,827	1,728,566	3,137	1,731,703	53,949
Private households	441,717	453,098	359	86,827	982,001	3,014	985,015	46,640
Other	137,368	101,758	6,231	975	246,332	10,577	256,910	8,909
Agriculture, forestry and fishing	40,575	95,002	4,393	958	140,929	3,636	144,565	6,898
Mining	3,937,663	529	-	-	3,938,191	5,947	3,944,139	981
Manufacturing	91,986	57,821	842	43	150,692	102	150,793	3,450
Electricity, gas, steam and cold air supply, water supply	34,454	24,165	92	-	58,711	102	58,813	1,040
Construction	10,620,440	489,451	204,484	3,176	11,317,551	32	11,317,583	181,017
thereof: Development of building projects	303	-	-	-	303	-	303	3
Total	**19,433,349**	**2,130,409**	**290,894**	**113,044**	**21,967,696**	**629,166**	**22,596,862**	**369,135**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
31.12.2020								
Agriculture, forestry and fishing	106,828	58,944	25,977	954	192,704	227	192,931	18,576
Mining	66,454	3,500	-	-	69,954	92	70,047	176
of which high risk	62,563	87	-	-	62,649	-	62,649	157
Manufacturing	816,909	536,018	4,161	1,934	1,359,021	68,981	1,428,002	24,692
of which high risk	237,648	423,315	1,370	1,238	663,571	26,175	689,746	14,541
Electricity, gas, steam and cold air supply, water supply	414,016	115,275	908	-	530,199	63,530	593,729	16,749
Construction	231,513	66,423	4,050	581	302,567	142,282	444,849	9,398
Trade	439,282	273,780	22,791	4,615	740,468	38,120	778,588	30,596
of which high risk	115,810	183,967	5,119	3,730	308,626	13,879	322,505	12,141
Transport and communication	553,558	226,218	3,533	310	783,618	27,445	811,063	11,930
of which high risk	156,808	78,129	273	-	235,209	1,079	236,289	1,998
Hotels and restaurants	2,701	80,860	1,512	14,170	99,243	828	100,072	7,325
of which high risk	2,701	80,860	1,512	14,170	99,243	828	100,072	7,325
Financial and insurance services	345,885	23,997	99	20	370,000	104,039	474,039	1,424
Real estate and housing	1,023,561	338,304	2,043	102,911	1,466,819	8,057	1,474,876	71,267
of which high risk	444,716	316,259	631	84,009	845,616	7,728	853,344	48,667
Services	103,452	105,866	11,513	1,321	222,152	22,857	245,009	13,597
of which high risk	65,828	98,922	10,539	1,103	176,392	4,494	180,886	11,846
Public administration	3,676,286	889	-	-	3,677,175	-	3,677,175	733
Education, health and art	68,278	52,078	308	23	120,687	51	120,737	4,006
of which high risk	14,287	17,005	154	-	31,446	51	31,497	754
Private households	9,607,937	826,436	225,052	2,963	10,662,387	92	10,662,479	198,201
Other	247	192	-	-	439	-	439	23
Total	**17,456,907**	**2,708,780**	**301,946**	**129,802**	**20,597,435**	**476,601**	**21,074,037**	**408,692**

Effect on Expected Credit Loss

The Bank kept its model for ECL (expected credit loss) consistent with prior periods. The Bank has enhanced few areas mainly in the credit risk parameters and SICR (significant increase in credit risk) assessment process in order to address COVID-19 pandemic induced crisis.

Credit risk parameters were affected by the macroeconomic development. The Bank is using macro shift translation models which the Bank has implemented for purposes of external and internal stress test to translate macro variables to parameters' shifts. Unprecedented state support measures lead to a significant delay in the observed defaults. Therefore, the Bank decided to adjust credit risk parameters to a different point in time (PiT) value – post financial crisis 2009-2011 (in previous year, financial crisis from 2008-2009 was used as PiT). Additionally, various expected macroeconomic developments are incorporated as forward-looking information (FLI).

The Bank uses three scenarios as a basis for the credit risk parameters' shift incorporation. The Baseline scenario is constructed by the Erste Group macro research team which leverages on the network of local macroeconomic experts in our core markets. The baseline scenario is generally aligned with other available external forecasts (e.g.: ECB, IMF, EU Commission).

Upside and downside scenarios are generated using internal statistical methodology based on the long-time horizon time series of macroeconomic variables.

The Bank has also used its internal COVID-19 related stress test scenario in constructing the downside scenarios. Due to higher volatility of the macro predictions, the Bank assigned for year 2021 equal or higher probability to the downside scenario rather than to the baseline scenario.

The Bank uses a 1-year period forward looking prediction to be incorporated into credit risk parameters. After the first year the Bank reverses to using through the cycle observed values. During current ECL estimation we used point in time shift from post-crisis period in 2009-2011 and as forward-looking prediction we used macro prediction for 2021.

The Bank has kept all the standard triggers for SICR assessment and has added additional ones such as COVID-19 SICR overlays. In order to properly identify portfolios with higher risk of default and addressing drawbacks in SICR identification due to the current COVID-19 situation and COVID-19 measures, the Bank decided to implement COVID-19 SICR overlays. They follow standard SICR assessment process and identify additional portfolios to be migrated to lifetime ECL measurement - Stage 2 (they cannot be used to over-ride standard stage 2 migrations back to stage 1).

In order to quantify COVID-19 SICR overlay, the Bank uses 3 negative information:

1. COVID-19 flag
2. Industry Heat Map information (not relevant for private individuals)
3. the level of the current 1Y IFRS PD

as factors which combination leads to COVID-19 SICR overlay assessment.

The Bank established a COVID-19 flag in the systems. The COVID-19 flag indicates any supporting measure granted to the customer irrespective whether legal or private moratorium, EBA guideline compliant or not. All these flags are considered as relevant and are referred to as COVID-19 flag for the purpose of COVID-19 SICR overlay. Applying for COVID-19 measures, even if not by itself, in combination with other negative information would point to current weakness and higher vulnerability to default in our view.

In order to distinguish between opportunistic applicants and those who really need the measure to cover a worsened situation, the Bank set 1Y IFRS PD threshold of 250 bps as second negative information (i.e. if the Bank has only industry heat map negative information or COVID-19 flag as the negative information). In case there exists already a combination of two negative information, the Bank does not need any PD discriminator – i.e. COVID-19 flag and high-risk industry combination would result to Stage 2 migration irrespective of current PD. Critical industry segment designation is the only criteria that would lead to Stage 2 on its own.

To summarize COVID-19 SICR overlay rules that would result to Stage 2 migration are as follows:

3. Private individuals
    a. COVID-19 flag + PD
4. Non-private individuals
    a. COVID-19 flag + medium risk industry + PD
    b. COVID-19 flag + high risk industry (irrespective of PD)
    c. High risk industry + PD (irrespective of COVID-19 flag)
    d. Critical risk industry (irrespective of PD and COVID-19 flag)

After moratoria will end for clients, the Bank will still keep SICR overlays active for six months in order to compensate for lacking information. In case of private individuals we are addressing via these overlays mainly lacking information for the score-card variables on the delinquency. That means, once moratoria is lifted, and scorecard shall get complete information for sufficiently long time we would be releasing overlays.

In case of non-private individuals we are addressing increased risk specific to certain industry and lack of information due to lagging of the financial information captured in current financial statements (that serves as basis for rating assessment). In case of moratoria we have set up therefore observation period in order to have possibility to monitor delinquency. Corporate business and their default probabilities are tied to development of the economy. We are observing GDP in the regular FLI process. Therefore, we have selected second criteria for non-private individuals SICR overlays release improvement of the economy in the degree expected when the ECL estimate for crises coverage was built.

List of considerations to be followed before stage overlays are lifted is listed below.

Non-private individuals

Additional observations necessary prior the Stage Overlays rules cancelation:

- two quarters of realized macro recovery and confirmation of the continuous recovery in the next years -> this means:
    - two consecutive quarters of positive GDP development;
    - in those two quarters forecast for end of the year and next year cannot be significantly below baseline FLI estimates for the same period

  AND
- majority of the credit portfolio is re-rated, using financial information not affected by COVID supporting measures. Financial information entering re-rating during 2021 is mostly from 2020, it is affected by support measures, and therefore we decided to keep overlay over YE 2021.

Private individuals

- minimum of 6 months period after moratoria expiration

In case of private individuals the Bank already sees release of ECL where the 6 month period after moratoria expiration already passed. Most of the moratoria expired in January and February and the Bank released approximately 8 mil. of provisions in Retail and EUR 16 million In Corporate portfolio.

The sensitivity analyses tables below present staging splits of the current performing exposure and ECL. Movements of exposures between Stage 1 and Stage 2 and resulting changes in ECL triggered by effect of COVID-19 SICR overlays and FLI macro overlays is shown. Effects on industry segments and high-risk industry subsegments (high risk and critically impacted industries) are disclosed. For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. For Exposure a positive sign (+) equals increase of exposure while a negative sign (-) equals decrease of exposure. Values presented as sensitivities are results of internal simulations.

Sensitivity analyses – Forward looking information (FLI) and stage overlays due to the Covid-19 pandemic

Impact on credit risk exposure by industry:

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021						
Agriculture and forestry	120,025	50,662	23,548	(23,548)	8,307	(8,307)
Mining	29,904	4,485	4,480	(4,480)	-	-
of which high risk	-	-	-	-	-	-
Manufacturing	986,723	253,323	163,011	(163,011)	13,720	(13,720)
of which high risk	5,902	7,155	5,585	(5,585)	562	(562)
Energy and water supply	451,765	133,547	2,627	(2,627)	39	(39)
Construction	263,898	92,211	26,023	(26,023)	5,357	(5,357)
Trade	633,847	226,280	145,619	(145,619)	12,141	(12,141)
of which high risk	73,443	114,596	110,701	(110,701)	1,963	(1,963)
Transport and communication	662,971	80,497	42,443	(42,443)	2,480	(2,480)
of which high risk	156	26,947	26,362	(26,362)	(75)	75
Hotels and restaurants	2,932	74,120	42,844	(42,844)	1,184	(1,184)
of which high risk	2,932	74,120	42,844	(42,844)	1,184	(1,184)
Financial and insurance services	378,488	40,549	6	(6)	(27)	27
Real estate and housing	1,115,038	525,176	255,431	(255,431)	2,038	(2,038)
of which high risk	441,717	453,098	217,609	(217,609)	2,254	(2,254)
Services	137,368	101,758	91,732	(91,732)	821	(821)
of which high risk	40,575	95,002	88,855	(88,855)	696	(696)
Public administration	3,937,663	529	-	-	-	-
Education, health and art	91,986	57,821	24,380	(24,380)	665	(665)
of which high risk	34,454	24,165	20,683	(20,683)	374	(374)
Households	10,620,440	489,451	1,273	(1,273)	9,992	(9,992)
Other	303	-	-	-	-	-
Total	**19,433,349**	**2,130,409**	**823,418**	**(823,418)**	**56,717**	**(56,717)**

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020						
Agriculture and forestry	106,828	58,944	18,824	(18,824)	16,275	(16,275)
Mining	66,454	3,500	1,548	(1,548)	166	(166)
of which high risk	62,563	87	3	(3)	60	(60)
Manufacturing	816,909	536,018	326,700	(326,700)	23,801	(23,801)
of which high risk	237,648	423,315	267,664	(267,664)	9,881	(9,881)
Energy and water supply	414,016	115,275	3,817	(3,817)	313	(313)
Construction	231,513	66,423	9,879	(9,879)	9,699	(9,699)
Trade	439,282	273,769	223,569	(223,569)	27,100	(27,100)
of which high risk	115,810	183,967	163,833	(163,833)	13,796	(13,796)
Transport and communication	553,558	226,218	120,413	(120,413)	6,085	(6,085)
of which high risk	156,808	78,129	44,921	(44,921)	124	(124)
Hotels and restaurants	2,701	80,860	53,040	(53,040)	1,154	(1,154)
of which high risk	2,701	80,860	53,040	(53,040)	1,154	(1,154)
Financial and insurance services	345,885	23,997	21	(21)	341	(341)
Real estate and housing	1,023,561	338,304	190,758	(190,758)	14,789	(14,789)
of which high risk	444,716	316,259	190,758	(190,758)	14,680	(14,680)
Services	103,452	105,866	87,179	(87,179)	3,969	(3,969)
of which high risk	65,828	98,922	85,424	(85,424)	1,640	(1,640)
Public administration	3,676,286	889	-	-	-	-
Education, health and art	68,278	52,078	20,989	(20,989)	386	(386)
of which high risk	14,287	17,005	16,037	(16,037)	106	(106)
Households	9,607,937	826,436	478,785	(478,785)	(1,139)	1,139
Other	247	203	-	-	151	(151)
Total	**17,456,907**	**2,708,780**	**1,535,522**	**(1,535,522)**	**103,090**	**(103,090)**

Impact on credit loss allowances by industry:

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021						
Agriculture and forestry	978	4,783	(689)	1,592	387	1,460
Mining	68	92	(23)	76	12	(1)
of which high risk	-	-	-	-	-	-
Manufacturing	5,909	9,296	(1,534)	4,034	1,375	1,446
of which high risk	14	312	(64)	209	11	35
Energy and water supply	1,423	17,529	(52)	134	266	206
Construction	2,206	4,265	(150)	425	537	478
Trade	2,664	10,013	(1,019)	3,894	850	803
of which high risk	204	3,766	(734)	2,822	248	190
Transport and communication	2,130	2,865	(258)	865	539	303
of which high risk	-	379	(99)	333	41	(12)
Hotels and restaurants	13	3,975	(313)	1,130	(53)	276
of which high risk	13	3,975	(313)	1,130	(53)	276
Financial and insurance services	624	2,607	-	-	147	(6)
Real estate and housing	5,217	20,038	(3,336)	8,236	484	454
of which high risk	2,806	16,220	(2,941)	7,458	465	488
Services	606	4,665	(867)	3,470	398	140
of which high risk	184	4,169	(721)	3,257	192	170
Public administration	964	16	-	-	-	-
Education, health and art	263	2,614	(207)	714	105	85
of which high risk	58	914	(150)	569	55	67
Households	26,036	36,377	(23)	88	8,436	1,146
Other	3	2	-	-	2	-
Total	**49,104**	**119,140**	**(8,472)**	**24,659**	**13,485**	**6,789**

EUR ths.	Current status – parameters (FLI shifted)		Current status without stage overlays due to Covid-19		Point in time parameters (before FLI shift)	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020						
Agriculture and forestry	1,168	5,480	(568)	1,275	462	2,104
Mining	160	16	(1)	4	(1)	11
of which high risk	154	4	-	-	(1)	3
Manufacturing	2,847	17,323	(2,388)	6,560	2,071	1,331
of which high risk	919	11,425	(1,893)	5,313	1,255	416
Energy and water supply	1,425	14,611	(22)	90	428	192
Construction	2,106	3,964	(182)	372	871	911
Trade	1,913	11,469	(2,000)	7,145	1,506	1,655
of which high risk	340	6,767	(1,333)	4,725	672	782
Transport and communication	1,449	7,456	(1,239)	4,336	1,107	437
of which high risk	207	1,571	(245)	894	127	9
Hotels and restaurants	28	4,456	(574)	1,976	199	86
of which high risk	28	4,456	(574)	1,976	199	86
Financial and insurance services	588	767	-	-	224	20
Real estate and housing	3,197	16,557	(2,049)	6,916	519	479
of which high risk	1,933	13,170	(2,049)	6,916	506	465
Services	498	4,454	(995)	2,656	546	340
of which high risk	210	3,813	(976)	2,564	394	135
Public administration	699	34	-	-	-	-
Education, health and art	277	3,486	(207)	797	185	42
of which high risk	60	570	(120)	524	81	3
Households	18,716	49,732	(3,483)	19,232	4,592	(4,512)
Other	5	21	-	-	(4)	17
Total	**35,076**	**139,826**	**(13,708)**	**51,359**	**12,705**	**3,113**

In case of FLI macro shifts and PiT parameters the Bank was given a choice either to use 2020 macro values for year 2021 for FLI or adjust PiT parameters to a crisis period and use standard FLI. The Bank decided to opt for the second option and adjusted PiT parameters to post-crisis period in years 2009-2011.

The following tables present sensitivity analyses taking into consideration only changes due to the different values of PDs according to the baseline, upside and downside FLI scenarios. Covid-19 SICR overlays are ignored. Sensitivities of these scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the "Incorporation of forward-looking information" section above). In tables below the Bank is showing impacts of different scenarios on exposure and ECL, where each particular scenario has 100% weight.

Total exposure in Stage 2 decreases by EUR 56.7 million before the PiT adjustment and ECL decreases by EUR 20.3 million (values shown in tables refer to PiT risk parameters before the adjustment to the post-crisis period). In case of baseline and upside scenarios total exposure in Stage 2 decreases by EUR 150.9 million and EUR 276.7 million respectively and ECL decreases by EUR 21.5 million and EUR 35.5 million respectively. In case of downside scenario total exposure in Stage 2 increases by EUR 414.3 million and ECL increases by EUR 30.3 million.

Year to year changes are caused by introduction of FLI in Corporate and Real estate segments.

Sensitivity analyses – Different probabilities of default (PD)

Impact of different scenarios on credit risk exposure by industry:

	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
EUR ths.	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021								
Agriculture and forestry	8,307	(8,307)	4,939	(4,939)	2,912	(2,912)	(1,720)	1,720
Mining	-	-	-	-	-	-	-	-
of which high risk	-	-	-	-	-	-	-	-
Manufacturing	13,720	(13,720)	33,650	(33,650)	7,672	(7,672)	(74,392)	74,392
of which high risk	562	(562)	487	(487)	87	(87)	-	-
Energy and water supply	39	(39)	1,125	(1,125)	1,125	(1,125)	(16,988)	16,988
Construction	5,357	(5,357)	38,922	(38,922)	15,102	(15,102)	(21,933)	21,933
Trade	12,141	(12,141)	48,829	(48,829)	43,158	(43,158)	(14,651)	14,651
of which high risk	1,963	(1,963)	1,738	(1,738)	882	(882)	(1,234)	1,234
Transport and communication	2,480	(2,480)	2,914	(2,914)	2,257	(2,257)	(18,662)	18,662
of which high risk	(75)	75	53	(53)	53	(53)	-	-
Hotels and restaurants	1,184	(1,184)	7,906	(7,906)	888	(888)	(1,117)	1,117
of which high risk	1,184	(1,184)	7,906	(7,906)	888	(888)	(1,117)	1,117
Financial and insurance services	(27)	27	24,262	(24,262)	22,675	(22,675)	(7,522)	7,522
Real estate and housing	2,038	(2,038)	110,805	(110,805)	53,365	(53,365)	(255,096)	255,096
of which high risk	2,254	(2,254)	105,090	(105,090)	48,340	(48,340)	(127,611)	127,611
Services	821	(821)	910	(910)	576	(576)	(768)	768
of which high risk	696	(696)	732	(732)	530	(530)	(636)	636
Public administration	-	-	-	-	-	-	-	-
Education, health and art	665	(665)	1,310	(1,310)	410	(410)	(706)	706
of which high risk	374	(374)	1,154	(1,154)	382	(382)	(207)	207
Households	9,992	(9,992)	1,169	(1,169)	775	(775)	(727)	727
Other	-	-	-	-	-	-	-	-
Total	**56,717**	**(56,717)**	**276,740**	**(276,740)**	**150,915**	**(150,915)**	**(414,282)**	**414,282**

EUR ths.	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020								
Agriculture and forestry	16,275	(16,275)	683	(683)	127	(127)	(290)	290
Mining	166	(166)	-	-	-	-	-	-
Manufacturing	23,801	(23,801)	300	(300)	139	(139)	(102)	102
of which high risk	9,881	(9,881)	107	(107)	69	(69)	(33)	33
Energy and water supply	313	(313)	-	-	-	-	-	-
Construction	9,699	(9,699)	277	(277)	238	(238)	(230)	230
Trade	27,100	(27,100)	1,010	(1,010)	488	(488)	(667)	667
of which high risk	13,796	(13,796)	202	(202)	82	(82)	(194)	194
Transport and communication	6,085	(6,085)	247	(247)	110	(110)	(151)	151
of which high risk	124	(124)	-	-	-	-	(41)	41
Hotels and restaurants	1,154	(1,154)	39	(39)	38	(38)	(30)	30
of which high risk	1,154	(1,154)	39	(39)	38	(38)	(30)	30
Financial and insurance services	341	(341)	4	(4)	4	(4)	-	-
Real estate and housing	14,789	(14,789)	111	(111)	-	-	-	-
of which high risk	14,680	(14,680)	111	(111)	-	-	-	-
Services	3,969	(3,969)	173	(173)	106	(106)	(140)	140
of which high risk	1,640	(1,640)	87	(87)	76	(76)	(98)	98
Public administration	-	-	-	-	-	-	-	-
Education, health and art	386	(386)	70	(70)	30	(30)	(16)	16
of which high risk	106	(106)	70	(70)	30	(30)	-	-
Households	(1,139)	1,139	5,608	(5,608)	3,486	(3,486)	(3,607)	3,607
Other	151	(151)	-	-	-	-	(50)	50
Total	**103,090**	**(103,090)**	**8,522**	**(8,522)**	**4,766**	**(4,766)**	**(5,283)**	**5,283**

Impact of different scenarios on credit loss allowances by industry:

EUR ths.	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2021								
Agriculture and forestry	387	1,460	522	1,141	170	628	(400)	(337)
Mining	12	(1)	54	1	33	-	(52)	(1)
of which high risk	-	-	-	-	-	-	-	-
Manufacturing	1,375	1,446	2,712	1,818	1,453	858	(1,400)	(2,077)
of which high risk	11	35	15	37	6	10	(15)	(13)
Energy and water supply	266	206	823	3,743	475	2,534	(580)	(4,089)
Construction	537	478	859	1,679	419	952	(621)	(1,170)
Trade	850	803	1,051	3,308	96	2,729	(913)	(1,413)
of which high risk	248	190	294	274	85	181	(251)	(149)
Transport and communication	539	303	915	613	440	435	(732)	(299)
of which high risk	41	(12)	40	4	15	3	(30)	(1)
Hotels and restaurants	(53)	276	(19)	926	49	428	(79)	(636)
of which high risk	(53)	276	(19)	926	49	428	(79)	(636)
Financial and insurance services	147	(6)	(25)	1,809	(273)	1,603	(85)	(1,181)
Real estate and housing	484	454	4,389	5,438	2,753	3,765	(303)	(10,750)
of which high risk	465	488	2,904	4,338	1,739	2,991	(898)	(6,116)
Services	398	140	417	293	138	171	(317)	(184)
of which high risk	192	170	214	267	59	161	(172)	(157)
Public administration	-	-	-	-	-	-	-	-
Education, health and art	105	85	123	476	57	269	(42)	(408)
of which high risk	55	67	72	184	35	78	(43)	(51)
Households	8,436	1,146	1,836	626	1,006	358	(1,688)	(507)
Other	2	-	-	-	-	-	-	-
Total	**13,485**	**6,789**	**13,656**	**21,870**	**6,815**	**14,732**	**(7,213)**	**(23,051)**

EUR ths.	Point in time parameters (before FLI shift)		Upside scenario		Baseline scenario		Downside scenario	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
31.12.2020								
Agriculture and forestry	462	2,104	1	73	5	21	(18)	(30)
Mining	(1)	11	-	-	-	-	-	(1)
Manufacturing	2,071	1,331	22	29	15	12	(36)	(16)
of which high risk	1,255	416	13	4	7	3	(17)	(2)
Energy and water supply	428	192	1	2	1	1	(1)	(2)
Construction	871	911	27	55	10	35	(36)	(50)
Trade	1,506	1,655	39	66	22	35	(40)	(67)
of which high risk	672	782	16	10	10	4	(18)	(10)
Transport and communication	1,107	437	21	15	11	7	(26)	(13)
of which high risk	127	9	2	-	1	-	(1)	-
Hotels and restaurants	199	86	10	5	4	5	(13)	(2)
of which high risk	199	86	10	5	4	5	(13)	(2)
Financial and insurance services	224	20	1	1	1	1	(1)	(1)
Real estate and housing	519	479	6	17	6	-	(13)	(1)
of which high risk	506	465	5	16	6	-	(11)	-
Services	546	340	19	18	10	8	(16)	(23)
of which high risk	394	135	13	3	6	2	(8)	(9)
Public administration	-	-	-	-	-	-	-	-
Education, health and art	185	42	7	4	4	3	(9)	(3)
of which high risk	81	3	1	2	-	1	(3)	-
Households	4,592	(4,512)	2,665	1,525	1,482	897	(2,978)	(1,511)
Other	(4)	17	-	1	-	1	1	(2)
Total	**12,705**	**3,113**	**2,819**	**1,811**	**1,571**	**1,026**	**(3,186)**	**(1,722)**

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the Bank's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. A borrower is in financial difficulties if any of the following conditions are met:

- the customer is more than 30 days past due on any account in the past 3 months;
- the customer would be more than 30 days past due on any account without receiving forbearance;
- the customer is in default;
- the customer would default without receiving forbearance.

Additional criteria for non-retail segment:

- specific early warning signals for this customer were identified in the last 3 months;
- customer has deteriorated financial figures, which led to decline of the rating grade;
- customer has increased probability of default.

Forborne exposure is assessed at account level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.
Contractual modification means that any of the following conditions are met:

- modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution;
- the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- activation of embedded forbearance clause of the contract;
- waiver of a material breach of a financial covenant.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.
Forbearance statuses are divided and reported as:

- performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of the Bank.

Default definition

The Bank applies the definition of default on client level. If a client defaults on any of its credit risk exposure then the client rating must be set to "R" and all on- and off balance exposure including equity products is considered as defaulted.

Default is recognized when one or both of the following incidents occur:

- the obligor is past due 90 consecutive days with any material credit obligation to the Bank, the parent undertaking or any of its subsidiaries in full; or
- the obligor is considered unlikely to pay (UTP) its credit obligation to the Bank, the parent undertaking or any of its subsidiaries in full without realisation of the collateral.

In the Bank the default status triggers the credit-impairment and the Stage 3 classification under IFRS9. In addition the Bank considers all non-performing exposures as defaulted.

Client is classified as defaulted due following 5 reasons, which are linked either to unlikely to pay (UTP) or days past due:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 –forbearance
- E4 – Credit loss
- E5 – bankruptcy

Credit Risk Model department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils EBA criteria and influences estimation of LLP, SRC, etc.

Changes in the treatment of forbearance and default due to the Covid-19 pandemic are described in the previous chapter 'Covid-19'.

Credit risk exposure, forbearance exposure and credit loss allowances:

EUR ths.	Loans and advances	Debt securities	Other positions	Off-balance	Total credit risk exposure
31.12.2021					
Gross exposure	16,311,359	3,926,803	73,986	2,284,714	22,596,862
thereof gross forborne exposure	455,255	-	121	44,743	500,119
Performing exposure	16,016,238	3,926,803	73,986	2,283,177	22,300,204
thereof performing forborne exposure	357,990	-	120	44,488	402,599
Credit loss allowances for performing exposure	171,963	1,236	-	25,056	198,255
thereof credit loss allowances for performing forborne exposure	15,896	-	-	772	16,668
Non-performing exposure	295,121	-	-	1,537	296,658
thereof non-performing forborne exposure	97,264	-	-	256	97,520
Credit loss allowances for non-performing exposure	170,152	-	-	728	170,880
thereof credit loss allowances for non-performing forborne exposure	48,369	-	-	155	48,524

EUR ths.	Loans and advances	Debt securities	Other positions	Off-balance	Total credit risk exposure
31.12.2020					
Gross exposure	15,319,400	3,687,990	105,362	1,961,286	21,074,037
thereof gross forborne exposure	291,581	-	80	89,141	380,803
Performing exposure	14,955,216	3,687,990	105,361	1,914,639	20,663,206
thereof performing forborne exposure	176,345	-	80	43,812	220,238
Credit loss allowances for performing exposure	(160,745)	(546)	-	(16,296)	(177,587)
thereof credit loss allowances for performing forborne exposure	(9,975)	-	-	(658)	(10,633)
Non-performing exposure	364,183	-	1	46,647	410,831
thereof non-performing forborne exposure	115,236	-	-	45,330	160,565
Credit loss allowances for non-performing exposure	(230,285)	-	-	(820)	(231,105)
thereof credit loss allowances for non-performing forborne exposure	(82,550)	-	-	(156)	(82,706)

Loans and advances also include lease, trade and other receivables.

Collateral

Recognition of credit collateral

Collateral Management is integrated in Underwriting Processes department of Credit Risk divisions. The Bank's Collateral Management Policy defines, among other things, uniform valuation standards for credit collateral. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.
All collateral types acceptable within the Bank are contained in the Collateral Catalogue. Permitted collateral is defined in accordance with applicable national legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Bank's Collateral Catalogue broken down by collateral type and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of collateral or a specific collateral asset is accepted for credit risk mitigation is decided by Corporate Credit Risk Management after determining if the applicable regulatory requirements are met. Credit underwriting monitors adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available.

Main types of credit collateral

The following types of credit collateral are accepted:

- real estate: residential and commercial real estate;
- financial collateral: securities, cash deposits and life insurance policies;
- guarantees: given by sovereigns, public sector entities, financial institutes, companies and private individuals. All guarantors must have a minimum credit rating, which is reviewed annually;
- movables: equipment, investment goods, machinery and motor vehicles;
- claims and rights: trade account receivables, leasehold rights and shares in a company's capital.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and their IT-supported technical application is performed by Collateral Management and by authorised staff in each country with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction. Therefore, imputed excess collateral values are not possible. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined by the Bank. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation discounts are adjusted regularly – at least once a year – to reflect current recoveries.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. All guarantee liabilities and loans of a corporate guarantee provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, the Bank does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books is commercial land and buildings. In addition, residential real estate properties and transport vehicles are taken into the Bank's possession.

Credit risk exposure by financial instrument and collaterals

31.12.2021 EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by: Guaran tees	Collateralised by: Real estate	Collateralised by: Other	Collateral total	Credit risk exposure net of collateral	IFRS 9 impairment relevant: Neither past due nor credit impaired	IFRS 9 impairment relevant: Past due but not credit impaire d	IFRS 9 impairment relevant: Credit impaire d
Cash and cash balances - other demand deposits	9,658	-	-	-	-	-	9,658	9,658	-	-
Financial assets at amortised cost	19,849,966	148,694	242,473	8,697,832	220,400	9,160,705	10,689,261	19,210,171	355,861	283,935
Loans and advances to banks	50,025	-	35	-	-	35	49,990	49,980	46	-
Loans and advances to customers	15,887,047	148,694	222,304	8,697,832	220,400	9,140,536	6,746,511	15,247,297	355,815	283,935
of which: Lending for house purchase	9,361,376	122,660	-	7,660,995	22	7,661,017	1,700,359	9,119,527	101,844	140,005
of which: Credit for consumption	1,422,176	158	-	196	16	212	1,421,964	1,309,920	50,836	61,420
of which: Corporate loans and others	5,103,495	25,876	222,304	1,036,641	220,362	1,479,307	3,624,188	4,817,850	203,135	82,510
Debt securities	3,912,894	-	20,134	-	-	20,134	3,892,760	3,912,894	-	-
Finance lease receivables	238,772	3,059	-	-	163,196	163,196	75,574	226,139	6,305	6,326
Trade and other receivables	135,518	-	-	-	-	-	135,517	119,782	10,875	4,860
Non-trading financial assets at fair value through profit or loss - 'Debt securities	13,909	-	-	-	-	-	13,909	-	-	-
Financial assets - held for trading	47,874	-	-	-	-	-	47,874	-	-	-
Positive fair value of derivatives	16,454	-	-	-	-	-	16,454	-	-	-
Total credit risk exposure on-balance	**20,312,151**	**151,753**	**242,473**	**8,697,832**	**383,596**	**9,323,901**	**10,988,247**	**19,565,750**	**373,041**	**295,121**
Off-balance	2,284,714	144	-	83,440	79,220	162,660	2,122,053	1,732,302	-	1,483
Total credit risk exposure	**22,596,865**	**151,897**	**242,473**	**8,781,272**	**462,816**	**9,486,561**	**13,110,300**	**21,298,052**	**373,041**	**296,604**

31.12.2020 EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral	IFRS 9 impairment relevant		
			Guarantees	Real estate	Other			Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - other demand deposits	11,023	-	-	-	-	-	11,023	11,023	-	-
Financial assets at amortised cost	18,666,495	139,823	158,225	8,437,965	247,271	8,843,462	9,823,033	18,051,118	264,431	350,948
Loans and advances to banks	49	-	41	-	-	41	8	-	49	-
Loans and advances to customers	14,986,196	139,823	140,173	8,437,965	247,271	8,825,410	6,160,787	14,370,868	264,382	350,948
of which: Lending for house purchase	8,618,370	120,023	-	7,519,339	23	7,519,362	1,099,009	8,400,705	78,659	139,008
'of which: Credit for consumption	1,587,560	100	-	114	56	171	1,587,389	1,456,490	48,831	82,239
'of which: Corporate loans and others	4,780,266	19,700	140,173	918,512	247,192	1,305,877	3,474,389	4,513,673	136,892	129,701
Debt securities	3,680,250	-	18,011	-	-	18,011	3,662,238	3,680,250	-	-
Finance lease receivables	246,820	5,100	-	-	171,736	171,736	75,084	228,718	9,266	8,837
Trade and other receivables	86,333	-	-	-	-	-	86,333	75,257	6,677	4,399
Non-trading financial assets at fair value through profit or loss - 'Debt securities	7,740	-	-	-	-	-	7,740	-	-	-
Financial assets - held for trading	59,994	-	-	-	-	-	59,994	-	-	-
Positive fair value of derivatives	34,345	-	-	-	-	-	34,345	-	-	-
Total credit risk exposure on-balance	**19,112,750**	**144,923**	**158,225**	**8,437,965**	**419,007**	**9,015,198**	**10,097,552**	**18,366,116**	**280,374**	**364,184**
Off-balance	1,961,286	71	42,325	76,939	31,238	150,502	1,810,784	1,540,183	-	46,580
Total credit risk exposure	**21,074,036**	**144,994**	**200,550**	**8,514,904**	**450,245**	**9,165,700**	**11,908,336**	**19,906,299**	**280,374**	**410,764**

The collateral attributable to exposures that are credit-impaired at 31 December 2021 amounts to EUR 151.9 million (2020: EUR 145 million).

Concentration

The following table presents a summary of the Banks's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government and similar exposures:

EUR ths.	Amount		Portion of total assets %	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Cash and cash balances	1,354,133	2,483,999	6.53%	10.73%
Loans and receivables to customers	514,715	562,736	2.48%	2.43%
Securities portfolio	3,051,137	3,264,708	14.71%	14.11%
Total	**4,919,985**	**6,311,443**	**23.72%**	**27.27%**

The following table presents a breakdown of state debt securities held by the Bank per portfolio and type of security:

EUR ths.	31.12.2020	31.12.2021
Financial assets at amortised cost	3,051,137	3,264,708
State bonds denominated in EUR	3,022,996	3,194,283
State bonds denominated in USD	28,141	70,425
Total	**3,051,137**	**3,264,708**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with stable outlook (since 27 September 2019).

26. Market risk

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived from them.
These market value changes might appear in the profit and loss account, in the statement of comprehensive income or in hidden reserves. The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

Methods and instruments employed

All positions of the bank, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model prices, and respective profit or loss is calculated. The main tools to measure market risk exposure are sensitivity analysis and value-at-risk (VAR) which is complemented by back testing and stress testing programme.
Sensitivity and VAR are applied to Trading Book positions as well as to Investment portfolios of the Banking Book. The overall interest rate risk of the bank (IRRBB) is quantified by Economic Value of Equity (change in balance sheet value due to shift in the yield curves) and ICAAP IRRBB capital charge (one year VAR at 99.92% confidence level based on historical observed shifts in yield curves). The limits are imposed to both of the measures.

The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions. The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VAR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the VAR for the current position of the Bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at the Bank. These events include mainly market movements of low probability.

In addition to standard day-to-day risk measurement and monitoring, comprehensive stress testing procedures are established. Neither traditional risk measurement using sensitivity indicators, nor value-at-risk model is capable of capturing extreme events that occur in the market from time to time. Since the value-at-risk model only estimates the potential maximum loss with 99% probability, potential stressful events that possess less than 1% probability will not be embraced in the value-at-risk figure.

In stress testing, scenarios of potential extreme behavior of the most significant market variables are developed. These are then applied to the current market values and potential profit or loss is calculated for current positions. These analyses are made available to the management board within the scope of the regular market risk reporting.

Methods and instruments of risk mitigation

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VAR, sensitivity, and stop-loss limits. Limits are structured according to individual portfolios (separate limits are defined for derivative trades). Limits are reviewed and proposed usually at year-end by SRM in cooperation with Treasury and BSM for the upcoming business year. Reallocations are also possible during the current year. The new limits proposal or change in approved limits is subject to approval by ALCO committee. Monitoring is performed daily by SRM. Each limit violation must be reported and explained with ALCO being the supreme decision maker on further action.

Risk reporting is done daily for relevant management and monthly for ALCO.

Sensitivity, VAR and stop-loss limits are applied to Trading Book positions as well as to Investment portfolios of the Banking Book. The overall interest rate risk of the bank (entire balance sheet) is quantified by Economic Value of Equity (change in balance sheet value due to shift in the yield curves) and ICAAP IRRBB capital charge (one year VAR at 99.92% confidence level based on historical observed shifts in yield curves). The limits are imposed to both of the measures.

Analysis of market risk

The following tables summarize the risk measures – Value at Risk of banking book and trading book:

Value at Risk of banking book and trading book

EUR ths.	31.12.2020	31.12.2021
Erste Group		
Banking book - ALM portfolio	12,948	11,700
Banking book - Corporate portfolio	1,012	718
Banking book - ALCO portfolio	153	181
Trading book	10	7

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

Interest rate risk in the banking book (IRRBB)

Interest rate risk is the risk of an adverse change in the value of interest rate sensitive balance sheet positions caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities, interest rate behavior or of the timing of interest rate adjustments.

Limits and thresholds are implemented for both aspects of the IRRBB, the change in economic value (EVE) as well as the change in earnings. Positions without contractually defined maturity or repricing structures, such as demand deposits or overdrafts are modelled accordingly. For positions where the customer has the right to prepay his debt prepayment models are applied.

Economic value of equity (EVE)

EUR ths.	31.12.2020	31.12.2021
SLSP		
parallel down scenario	10,330	(35,990)
parallel up scenario	74,234	42,675
flattener scenario	(72,909)	(154,497)
steepener scenario	98,679	109,694
short down scenario	15,558	50,369
short up scenario	(78,886)	(100,661)

The positive numbers mean an increase in economic value due to the shift in yield curves, i.e. profit, the negative numbers vice versa. The biggest risk for the bank arises from non-parallel shift in the yield curves – the flattener scenario, under which the short end of the yeld curves goes up while the long end declines.

Exchange rate risk

Risk from open foreign exchange positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis.

Basis principle behind managing FX risk is to transfer positions stemming from banking book activities to Erste Holding. However, in reasonable cases, banking book is permitted to hold strategic FX positions. This would typically be opened in order to hedge existing FX positions that are not explicitly seen on the balance sheet.

Strategic positions are subject to ALCO approval and shall be managed on a daily basis by Balance Sheet Management. They are covered by sufficient limit structure and reporting on VAR, stop-loss limit and are disclosed as the gain or loss (responsibility of Strategic Risk Management).

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. The Bank is exposed to credit spread risk with respect to its bond portfolio accounted at fair value. There is no bonds position in the trading book. The bonds position in fair value portfolio in the banking book is small (EUR 6 million). Quantifying the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the ICAAP calculations to determine the capital consumption of the banking book portfolio.

Hedging

Banking book market risk management consists of optimising the Bank's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging refers to an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. IFRS hedge accounting is applied, if possible, to avoid accounting mismatches due to hedging activity. Within the scope of IFRS-compliant hedge accounting, fair value hedges and cash flow hedges are used. In addition, the fair value option is used for hedging the market risk from the economic perspective. The hedging within the Bank concerns hedging of interest rate risk.

27. Liquidity risk

The liquidity risk is defined in the Bank as the inability to meet the Bank's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Banks will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Bank. Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.

Liquidity risk is within the authority of ALCO. The Local Operating Liquidity Committee (L-OLC) is responsible for operational managing and analysing of the liquidity situation of the Bank.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

Liquidity strategy

The goal of the Bank's Funding Strategy is to cover the gap coming from the core business and also Minimum Requirement for Own Funds and Eligible Liabilities (MREL) efficiently, i.e. reaching an optimal liquidity status and MREL compliance in terms of structure and costs versus risk tolerance.

In 2021, customer deposits remained the primary source of funding for the Bank. The growth in loan volume was lower than inflows of customer deposits, the excess liquidity was mainly placed with central bank. The Bank comfortably fulfills all regulatory and internal liquidity limits and keeps sufficient liquidity buffer composed mainly of government securities.

With regards its own issuance, the Bank issued EUR 312 million in bonds in 2021 (2020: EUR 993 million including EUR 500 million of retained covered bond) out of which EUR 230 million as preferred senior bonds and EUR 80 million as additional tier 1 capital.

The Bank's total TLTRO participation in 2021 was increased to EUR 2.75 billion (2020: EUR 1.5 billion).

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period (SPA) on weekly basis. This analysis determines the maximum period during which the Bank can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its counterbalancing capacity consist mainly of pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows.

Liquidity ratios defined by the regulator (LCR – Liquidity Coverage Ratio, NSFR – Net Stable Funding Ration and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO. Funding concentration risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Strategic Risk Management provides the reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the Bank to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined within the Bank and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 1 months
- severe market crisis – over 6 months
- sever combined name and market crisis – over 3 months
- mild name crisis – over 3 months
- mild market crisis – over 12 months
- mild combined name and market crisis – over 6 months

For each scenario also the limit for liquidity surplus over given horizon limit is applied. The limit is set at EUR 0 million with warning level in range between EUR 0 and EUR 200 million.

The minimum amount of highly liquid assets (cash and average balance in central bank less minimum reserve requirement) must be over EUR 2.5 billion.

The Bank daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks, as well as unencumbered central bank eligible assets and amount of retained covered bonds which could be pledged in central bank. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation.

Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR and NFSR.

Funding Concentrations management - sum of top 10 biggest clients of each monitored group of wholesale funding providers (public, financial, credit institutions and corporates) may not account for more than EUR 500 million.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

In the Bank, the liquidity risk is analysed by the following methods.

Liquidity coverage ratio

The Bank uses the regulatory liquidity coverage ratio for internal monitoring and steering of the liquidity position as well. In order to keep the LCR above both limits, the regulatory limit and the internal limit, the Bank closely monitors its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR as of 31 December 2020 and 31 December 2021:

Liquidity coverage ratio

EUR ths.	31.12.2020	31.12.2021
Liquidity buffer	4,294,441	4,327,590
Net liquidity outflow	2,010,503	2,282,137
Liquidity coverage ratio	213.60%	189.63%

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserves at the central banks as well as unencumbered central bank eligible assets, amount of retained covered bonds which could be pledged in ECB and other liquid securities, including impacts from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation.

Term structure of counterbalancing capacity

EUR mil.	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
31.12.2021					
Cash, excess reserve	2,753	-	-	-	-
Liquid assets	1,487	-	-	-	-
Other central bank eligible assets	-	1,176	(2)	(4)	(7)
Thereof retained covered bonds	-	1,032	-	-	-
Thereof credit claims	-	144	(2)	(4)	(7)
Counterbalancing capacity	**4,240**	**1,176**	**(2)**	**(4)**	**(7)**

EUR mil.	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
31.12.2020					
Cash, excess reserve	1,552	-	-	-	-
Liquid assets	2,656	(9)	(117)	(5)	(20)
Other central bank eligible assets	-	914	(2)	(3)	(19)
Thereof retained covered bonds	-	806	-	-	-
Thereof credit claims	-	108	(2)	(3)	(19)
Counterbalancing capacity	**4,208**	**905**	**(119)**	**(8)**	**(39)**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts. In a crisis situation, adverse market movements can decrease this amount. Negative figures are maturing positions of the counterbalancing capacity. Positive figures after one week are positions not immediately available as counterbalancing capacity.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities were as follows:

Financial liabilities

EUR ths.	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
31.12.2021						
Non-derivative liabilities	**20,816,523**	**20,828,126**	**15,486,854**	**787,356**	**4,215,153**	**338,763**
Deposits by banks	2,893,347	2,879,226	8,803	26,102	2,800,463	43,858
Customer deposits	15,977,315	15,977,467	15,477,990	471,251	28,226	-
Debt securities in issue	1,863,933	1,888,467	61	260,424	1,349,368	278,614
Subordinated liabilities	81,928	82,966	-	29,579	37,096	16,291
Derivative liabilities	**77,975**	**31,427**	**3,591**	**12,208**	**16,062**	**(434)**
Derivatives liabilities with gross Cash Flow (net)	77,975	31,427	3,591	12,208	16,062	(434)
Outflows	-	296,143	73,552	114,215	98,751	9,625
Inflows	-	(264,716)	(69,961)	(102,007)	(82,689)	(10,059)
Contingent liabilities	**2,284,714**	**2,284,714**	**2,284,714**	**-**	**-**	**-**
Financial guarantees	10,801	10,801	10,801	-	-	-
Commitments	2,273,913	2,273,913	2,273,913	-	-	-
Other financial liabilities	68,859	68,859	37,818	11,888	18,496	657
Total	**23,248,071**	**23,213,126**	**17,812,977**	**811,452**	**4,249,711**	**338,986**

EUR ths.	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
31.12.2020						
Non-derivative liabilities	**18,686,803**	**18,739,600**	**14,156,289**	**1,067,313**	**2,848,124**	**667,874**
Deposits by banks	1,710,255	1,723,265	4,397	28,305	1,644,829	45,734
Customer deposits	14,924,817	14,925,033	14,151,785	735,212	38,036	-
Debt securities in issue	1,957,349	1,994,511	107	289,657	1,131,064	573,683
Subordinated liabilities	94,382	96,791	-	14,139	34,195	48,457
Derivative liabilities	**104,897**	**37,683**	**3,076**	**5,414**	**29,269**	**(76)**
Derivatives liabilities with gross Cash Flow (net)	104,897	37,683	3,076	5,414	29,269	(76)
Outflows	-	293,177	82,148	67,801	129,140	14,088
Inflows	-	(255,494)	(79,072)	(62,387)	(99,871)	(14,164)
Contingent liabilities	**1,961,286**	**1,961,286**	**1,961,286**	**-**	**-**	**-**
Financial guarantees	9,198	9,198	9,198	-	-	-
Commitments	1,952,088	1,952,088	1,952,088	-	-	-
Other financial liabilities	62,382	62,382	23,517	12,045	26,129	691
Total	**20,815,368**	**20,800,951**	**16,144,168**	**1,084,772**	**2,903,522**	**668,489**

As of year-end 2021, the currency composition of the non-derivative liabilities consisted mainly by EUR (approximately 99%).

28. Operational risk

In line with Article 4 Section 52 of regulation (EU) 575/2013 (CRR), the Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which are collected across the Bank using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. The Bank sources external data from a leading non-profit risk-loss data consortium.

The Bank calculates capital requirements for operational risk based on the Advanced Measurement Approach (AMA) that is subject to regulatory approval. AMA is a sophisticated approach for measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. Additionally, the Bank received the approval to use insurance contracts for mitigation within the AMA pursuant to Article 323 CRR.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk and control assessments through expert panels. Additional methods include setting of key risk indicators and risk assessments in connection with product approvals, outsourcing assessments and risk return decisions. The results of these assessments and processes are reported to line management along with mitigation measures and thus help to reduce operational risks. In order to ensure early detection of changes in the risk profile that may lead to losses, the Bank monitors a number of key risk indicators such as system availability, staff turnover, and customer complaints.

The Bank uses a group-wide insurance program that has reduced the cost of meeting the Bank's traditional property insurance needs. Freed-up resources made it possible to buy additional insurance for previously uninsured bank-specific risks. This program uses a captive reinsurance entity as a vehicle to share losses within the Bank and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of the Bank. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management reports, which describe the recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for the Bank.

Main objectives of effective system of operational risk management are:

- set up a bank-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- properly identify major drivers of operational risk
- develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- implement and update of insurance program
- define outsourcing and internal control system principles
- prepare ORCO meetings
- continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- provide quality reporting and documentation

Risk identification

Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and / or severity of loss events.

Risk identification is generally forward-looking. While it is inevitable to use historical loss data, they are supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors are translatable into quantitative measures.

The most significant sources of operational risk in the Bank are:
- theft and fraud (both external and internal);
- legal risks;
- conduct risk;
- human processing error;
- data, infrastructure, and system related risks;
- ICT risk, especially cyber crime
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

Internal data

The Bank maintains a central database of operational risk events and losses. This is as comprehensive as possible in that it captures all material activities throughout the Bank. Data collection is conducted via a web-based application EMUS which was upgraded in 2016 and continuously finetuned every year. This application now provides more user friendly platform to deal with operational risk losses. Currently this system contains more modules which supports whole compliance and operational risk management area (whistleblowing, conflict of interests, trading of employees, regulatory compliance, third party/clients checks evidence, corrective measures for fraud management). Thanks new reporting services possibilities and fully automated reports, EMUS becomes Business Intelligence application which supports our management needs.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the Bank. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the Bank has an access right. Information on loss amounts, recoveries, date of event and other relevant descriptive information must be provided.

Every event reported in the EMUS application follows the acceptance procedure by expert departments. Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Fraud Prevention, Card Services, Internal Services or Legal Unit. Second stage is a data consistency check and is performed by Operational Risk Management. Events are categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process is covered by Operational Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc.

External data

As severe operational risk events are scarce, and may not have been captured in internal data collection, the Bank also includes adequate external event data in its risk identification system. These cover infrequent severe events with relevance to the Bank or financial industry. The Bank systematically incorporate external data into its risk measurement methodology. External data collection is coordinated with the Erste group efforts on this matter and will be locally conducted by Operational Risk Management.

Scenario analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Bank includes such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Compliance and Operational Risk Management departments.

Risk mapping and key risk indicators

The objective of this risk identification technique is to map the level of different operational risks across the Bank and to set up a measurable framework known as key risk indicators ('KRI') that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Compliance and Operational Risk Management, with the help of respective senior or third level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the Bank. The resulting map will have three dimensions, namely:

- risk category
- business line / product
- functional process level – where applicable, this provides depth for the business line / product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI has the following properties:

- it is easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;
- it is effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

Risk measurement

The Bank measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both, frequency of loss and amount of loss, is modelled and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99,9 % and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification process is used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems is used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.

The Bank is able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model is validated through comparison to actual experience and appropriate corrections are made. Design of the risk measurement model is within the responsibility of Erste Holding (for more details see the Bank AMA documentation). Modelling inputs are provided by Operational Risk Management.

Managing operational risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Operational Risk Management has a harmonization role and performs activities of global scope.
In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance
- system of internal controls
- outsourcing
- risk acceptance
- decrease of the extent or disposal of the risky activity

Selection of the approach is the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, the Board of Directors) for approval.

The following sub-sections give an overview of the main activities regarding operational risk management within the Bank.

Operational Risk and Compliance Committee is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

Operational Risk Management or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers and other representatives.

System of internal controls

Each unit manager implements a system of internal controls ('ICS') within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc. Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that will be covered by operative controls.

Internal control system shall consist of:

- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself
- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:

- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the Bank's ICS in order to determine whether the Bank is following enacted policies and procedures. Operational Risk Management issues associated Internal Control System Policy giving detailed information on the system. However, Operational Risk Management does not assume any coordination role in the implementation and execution of ICS by individual managers.

Insurance

In order to mitigate operational risk, the Bank engages in a comprehensive insurance program. This covers direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the Bank and its subsidiaries. The primary objective of the insurance program is to safeguard the Bank against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Operational Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which, inter alia, covers procedures in case of insurance incident.

NON-CURRENT ASSETS AND OTHER INVESTMENTS

29. Property, equipment, investment properties and right of use assets

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the statement of income in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

Type of property and equipment	Useful lives in years
Buildings	30 years
Right-of-use assets - buildings	15- 30 years
Office equipment / other fixed assets	4 - 6 years
Passenger cars	4 years
IT assets (hardware)	4 years
Fixture and fittings	6 - 12 years

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of income under the line item 'Other operating result'.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation or both. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction when the future use is expected to be the same as for investment property are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet in the line item 'Investment properties'.

Rental income is recognised in the statement of income in the line item 'Rental income from investment properties and other operating leases'. Depreciation is presented in the statement of income in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are in the range of 15-30 years. Any impairment losses, as well as their reversals, are recognised under the line item 'Other operating result'.

Impairment

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
If any indication of impairment exists or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring the value in use, the 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 risks specific to the asset.

At each reporting date, an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the bank estimates the asset's or the CGU's recoverable amount. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the statement of income under the line item 'Other operating result'.

Acquisition and production costs

Own property, equipment, investment properties and right of use assets

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Right-of-use assets - Land and buildings	Property and equipment total	Investment properties
Balance as at 01.01.2020	**158,613**	**49,345**	**49,055**	**50,782**	**307,795**	**6,499**
Additions	5,082	2,419	7,488	9,191	24,180	-
Disposals	(19,627)	(5,921)	(142)	(1,416)	(27,106)	(17)
Reclassification	(113)	-	-	-	(113)	113
Balance as at 31.12.2020	**143,955**	**45,843**	**56,401**	**58,557**	**304,756**	**6,595**
Additions	6,676	3,179	3,594	6,632	20,081	-
Disposals	(3,907)	(2,476)	(1,041)	(1,026)	(8,450)	-
Reclassification	430	-	-	-	430	(430)
Balance as at 31.12.2021	**147,154**	**46,546**	**58,954**	**64,163**	**316,817**	**6,165**

Accumulated depreciation

Own property, equipment, investment properties and right of use assets

EUR ths.	Land and buildings	Office and plant equipment/other fixed assets	IT assets (hardware)	Right-of-use assets - Land and buildings	Property and equipment total	Investment properties
Balance as at 01.01.2020	**(99,910)**	**(40,557)**	**(32,549)**	**(6,435)**	**(179,451)**	**(4,672)**
Amortisation and depreciation	(6,217)	(3,359)	(5,077)	(13,751)	(28,404)	(214)
Disposals	15,562	5,793	138	1,376	22,869	12
Impairment	(3,073)	-	-	-	(3,073)	-
Reversal of impairment	2,601	-	-	-	2,601	224
Reclassification	47	-	-	-	47	(47)
Balance as at 31.12.2020	**(90,990)**	**(38,123)**	**(37,488)**	**(18,810)**	**(185,411)**	**(4,697)**
Amortisation and depreciation	(6,434)	(2,904)	(5,736)	(14,126)	(29,200)	(205)
Disposals	3,111	2,404	1,022	1,026	7,563	-
Impairment	(1,194)	-	-	-	(1,194)	(1)
Reversal of impairment	2,610	-	-	-	2,610	42
Reclassification	(214)	-	-	-	(214)	214
Balance as at 31.12.2021	**(93,111)**	**(38,623)**	**(42,202)**	**(31,910)**	**(205,846)**	**(4,647)**

Carrying amounts

Own property, equipment, investment properties and right of use assets

EUR ths.	Land and buildings (used by the Group)	Office equipment / other fixed assets	IT assets (hardware)	Right-of-use assets - Land and buildings	Property and equipment total	Investment properties
As of 31.12.2020	**52,965**	**7,720**	**18,913**	**39,747**	**119,345**	**1,898**
As of 31.12.2021	**54,043**	**7,923**	**16,752**	**32,253**	**110,971**	**1,518**

In 2021, land and buildings were impaired to the amount of EUR 10.6 million (2020: EUR 12.1 million).

Cost of property and equipment, which are fully depreciated but still used by the Bank as at 31 December 2021 amounted EUR 71.5 million (2020: EUR 67.4 million) and includes various types of tangible fixed assets.

As at 31 December 2021 the Bank owned property and equipment not yet put in use in the amount of EUR 0.7 million (2020: EUR 1.4 million).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

30. Intangible assets

The Bank's intangible assets other than goodwill include computer software and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated software are capitalised if Erste Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under the line item 'Depreciation and amortisation'.

Type of intangible assets	Useful lives in years
Software	4 - 8 years
Core banking system and related applications	8 years

Impairment of intangible assets

Impairment of intangible assets is based on the same requirements as described in Note 29 Property, equipment, investment properties and right of use assets. It is typical of intangible assets that they do not generate cash inflows that are largely independent of those from other assets. As a result, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs.

Acquisition and production costs

EUR ths.	Software acquired	Self-constructed software	Others (licenses, patents, etc.)	Total
Balance as at 01.01.2020	**275,064**	**2,661**	**2,694**	**280,419**
Additions	6,297	-	29	6,326
Disposals	-	-	-	-
Balance as at 31.12.2020	**281,361**	**2,661**	**2,723**	**286,745**
Additions	7,508	-	-	7,508
Disposals	(159)	-	-	(159)
Balance as at 31.12.2021	**288,710**	**2,661**	**2,723**	**294,094**

Accumulated depreciation

EUR ths.	Software acquired	Self-constructed software	Others (licenses, patents, etc.)	Total
Balance as at 01.01.2020	**(251,774)**	**(2,271)**	**(2,638)**	**(256,683)**
Amortisation and depreciation	(10,729)	(360)	(26)	(11,115)
Disposals	-	-	-	-
Balance as at 31.12.2020	**(262,503)**	**(2,631)**	**(2,664)**	**(267,798)**
Amortisation and depreciation	(7,453)	(29)	(23)	(7,505)
Disposals	159	-	-	159
Balance as at 31.12.2021	**(269,797)**	**(2,660)**	**(2,687)**	**(275,144)**

Carrying amounts

EUR ths.	Software acquired	Self-constructed software	Others (licenses, patents, etc.)	Total
As of 31.12.2020	**18,858**	**30**	**59**	**18,947**
As of 31.12.2021	**18,911**	**-**	**36**	**18,947**

Cost of intangible assets, which are fully depreciated but still used by the Bank as at 31 December 2021 amounted EUR 253.7 million (2020: EUR 247.3 million).

As at 31 December 2021 the Bank owned intangible assets not yet put in use in the amount of EUR 3.3 million (2020: EUR 3.4 million).

During the year 2021 the Bank put in use upgrade of the core banking system, which amounted EUR 6.0 million (2020: EUR 4.1 million).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

31. Other assets

EUR ths.	31.12.2020	31.12.2021
Client settlement	11,643	28,565
Personnel balances	17	192
State budget, social and health insurance, taxes	-	-
Sundry assets	9,287	6,934
Other assets	**20,947**	**35,691**

These items represent balances like:

Item Client settlement represents mainly suspense accounts or money in transit accounts that are not allocated to respective client account due to missing information or due to essence of the transaction. The main part of this items belongs to interbank clearing or open settlement with securities transactions.

Item Personnel balances represents other unsettled transactions – mainly unsettled prepaid expenses.

Item State budget, social and health insurance, taxes consist mainly of withholding tax and VAT tax receivables that will be settled with state budget within next month.

Sundry assets represent other items that do not fall into the above mentioned categories – mainly deferred costs and suspense accounts.

Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

LEASES

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The Bank as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item ‘Finance lease receivables’. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item ‘Other similar income’ under ‘Net interest income’.

Finance leases

The Bank leases both movable property and real estate to other parties under finance lease arrangements. For finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

EUR ths.	31.12.2020	31.12.2021
Outstanding lease payments	261,671	253,955
Gross investment	261,671	253,955
Unrealised financial income	(14,851)	(15,185)
Net investment	246,820	238,770
Present value of non-guaranteed residual values	-	-
Present value of outstanding lease payments	**246,820**	**238,770**

Maturity analysis by residual maturities

EUR ths.	31.12.2020		31.12.2021	
	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	77,769	73,106	72,632	68,448
1-2 years	52,928	49,564	46,436	43,317
2-3 years	39,655	37,299	35,350	33,014
3-4 years	29,141	27,496	27,929	26,164
4-5 years	22,474	21,336	20,842	19,561
> 5 years	39,705	38,019	50,766	48,267
Total	**261,672**	**246,820**	**253,955**	**238,771**

During 2021, the Bank recognised interest income on finance lease receivables in the amount of EUR 5.0 million (2020: EUR 5.4 million). Gains/losses from derecognition of finance lease receivables are recognized in line item ‘Gains/losses from derecognition of financial assets measured at amortised cost’.

Finance lease receivables

Gross carrying amounts and credit loss allowances per impairment buckets

	Gross carrying amount					Credit loss allowances					Carrying amount
EUR ths.	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	
As of 31.12.2021											
General governments	1,327	-	-	-	1,327	(1)	-	-	-	(1)	1,326
Other financial corporations	37	-	-	-	37	-	-	-	-	-	37
Non-financial corporations	205,363	23,298	5,391	-	234,052	(1,239)	(504)	(3,087)	-	(4,830)	229,222
Households	1,967	452	936	-	3,355	(4)	(2)	(499)	-	(505)	2,850
Total	**208,694**	**23,750**	**6,327**	**-**	**238,771**	**(1,244)**	**(506)**	**(3,586)**	**-**	**(5,336)**	**233,435**

	Gross carrying amount						Credit loss allowances					Carrying amount
EUR ths.	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**		**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	
As of 31.12.2020												
General governments	510	-	-	-	510		(1)	-	-	-	(1)	509
Credit institutions	-	-	-	-	-		-	-	-	-	-	-
Other financial corporations	102	-	-	-	102		-	-	-	-	-	102
Non-financial corporations	146,690	86,430	7,262	-	240,382		(417)	(1,174)	(3,321)	-	(4,912)	235,470
Households	3,013	1,238	1,575	-	5,826		(8)	(11)	(876)	-	(895)	4,931
Total	**150,315**	**87,668**	**8,837**	**-**	**246,820**	**-**	**(426)**	**(1,185)**	**(4,197)**	**-**	**(5,808)**	**241,012**

Movement in credit loss allowances

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2021
Stage 1	(425)	(369)	161	1,313	(1,924)	-	-	-	(1,244)
Stage 2	(1,185)	-	15	(55)	718	-	-	-	(507)
Stage 3	(4,198)	-	214	(51)	450	-	-	-	(3,585)
POCI	-	-	-	-	-	-	-	-	-
Total	**(5,808)**	**(369)**	**390**	**1,207**	**(756)**	**-**	**-**	**-**	**(5,336)**

EUR ths.	01.01.2020	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	31.12.2020
Stage 1	(253)	(983)	30	96	685	-	-	-	(425)
Stage 2	(6)	-	5	16	(1,200)	-	-	-	(1,185)
Stage 3	(4,307)	-	500	(356)	(35)	-	-	-	(4,198)
POCI	-	-	-	-	-	-	-	-	-
Total	**(4,566)**	**(983)**	**535**	**(244)**	**(550)**	**-**	**-**	**-**	**(5,808)**

In column ‘Additions’ increases of credit loss allowance due to the initial recognition of finance lease receivables during the current reporting period are disclosed. Releases of credit loss allowance following the derecognition of the related finance lease receivables are reported in column ‘Derecognitions’.

In column ‘Transfers between stages’ credit loss allowance net changes due to changes in credit risk that triggered re-assignments of the related finance lease receivables from Stage 1 as of 1 January 2021 or initial recognition date to Stages 2 or 3 as of 31 December 2021 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related credit loss allowances are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related credit loss allowances are favourable and presented in line ‘Stage 1’. The P&L-neutral effect from cross-stage transferring of the related credit loss allowance amounts recognized prior to stage re-assignments are presented above in column ‘Other changes in credit risk (net)’.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column ‘Other changes in credit risk (net)’.

The column ‘Insignificant modifications (net)’ reflects the effect on credit loss allowance arising from contractual modifications of finance lease receivables which do not trigger their full derecognition. The use of credit loss allowance triggered by full or partial write-offs of finance lease receivables is reported in column ‘Write-offs’.

One significant driver of the credit loss allowance movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2021 to a different stage compared to 1 January 2021 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages

EUR ths.	31.12.2020	31.12.2021
Transfers between Stage 1 and Stage 2	**83,440**	**48,445**
To Stage 2 from Stage 1	83,278	5,463
To Stage 1 from Stage 2	162	42,982
Transfers between Stage 2 and Stage 3	**541**	**276**
To Stage 3 from Stage 2	470	246
To Stage 2 from Stage 3	71	30
Transfers between Stage 1 and Stage 3	**2,618**	**533**
To Stage 3 from Stage 1	2,552	465
To Stage 1 from Stage 3	66	68

The year-end total gross carrying amount of the finance lease receivables that were initially recognized during the reporting period and not fully de-recognized by 31 December 2021 amounts to EUR 53.5 million (2020: EUR 79.6 million). The gross carrying amounts of the finance lease receivables that were held at 1 January 2021 and fully de-recognized during the year 2021 amounts to EUR 0.4 million (2020: EUR 44.4 million).

Leases where the Bank is a lessee

Under IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Bank uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of ‘Property and equipment, right-of-use assets’ or, if they are subleased to third parties, for operating leases as part of ‘Investment properties’ and for finance leases as a ‘Finance lease receivables’.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee’s incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options. Extension and termination options are included in a number of real estate leases across the Bank. The use of extension and termination options gives the Bank added flexibility in case more suitable premises in terms of costs and/or location are identified or in case it is considered favourable to remain in a location beyond the original lease term.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity’s rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Euribor and is derived from existing bank data. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

The Bank primarily rents real estates such as buildings and land for headquarters, branches and parking lots. For details related to right of use assets capitalized in balance sheet arising from leases where the Bank is lessee, please see Note 29 Property, equipment, investment properties and right of use assets.

Maturity analysis of lease liabilities based on undiscounted cash flows

EUR ths.	31.12.2020	31.12.2021
< 1 year	13,059	13,182
1-5 years	26,134	18,499
> 5 years	692	658
Total	**39,885**	**32,339**

During 2021, interest expenses on lease liabilities were recognised in the amount of EUR EUR 0.0 million (2020: EUR 0.0 million). In addition expenses in the amount of EUR 0.7 million (2020: EUR 0.8 million) relating to short term leases and expenses amounting to EUR 0.0 million (2020: EUR 0.0 million) relating to leases of low value items, for which the recognition exemption of IFSR 16 applies, were recognised. Total cash outflow for leases in 2021 was EUR 14.9 million (2020: EUR 14.8 million).

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

32. Other liabilities

EUR ths.	31.12.2020	31.12.2021
Client settlement	2,716	25,296
Trade payables	38,596	43,918
Personnel balances and social fund	32,395	35,794
State budget, social and health insurance, taxes	6,203	5,882
Sundry liabilities	-	3
Other liabilities	**79,910**	**110,893**

Item Client settlement represents mainly suspense accounts or money in transit accounts that are not allocated to respective client account due to missing information or due to essence of the transaction.

Item Trade payables represents liabilities to suppliers, including accruals and the main part belongs to unbilled deliveries, that are completed but unbilled as end of month.

Item Personnel balances and social fund mainly represents provisions for personnel costs, wage liabilities to employees and social fund contribution.

Item State budget, social and health insurance, taxes consist mainly of withholding tax and VAT tax payables that will be settled with state budget within next month.

Social fund liability, which is included in the line item ‘Other liabilities‘, developed as follows:

EUR ths.	31.12.2020	31.12.2021
As at 1 January	**2,242**	**4,359**
Additions	4,336	2,837
Withdrawals	(2,220)	(3,288)
As at 31 December	**4,359**	**3,907**

33. Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. On the balance sheet, provisions are reported under the line item ‘Provisions’. They include credit risk loss provisions (particularly for financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item ‘Impairment result from financial instruments’. Expenses or income related to other provisions are reported in the statement of income under the line item ‘Other operating result’.

EUR ths.	31.12.2020	31.12.2021
Long-term employee provisions	7,620	7,577
Pending legal issues and tax litigation	5,553	9,602
Loan commitments and financial guarantees given	16,284	24,651
Other provisions	2,379	1,384
Restructuring	1,547	250
Other	832	1,134

Provisions	31,836	43,214

Defined employee benefit plans

Defined employee benefit plans operated by the Bank are for severance and jubilee benefits. From IAS 19 categorisation perspective, severance benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

All employees that are employed are entitled to receive a severance payment if their employment is terminated by the employer or if they retire after defined employment period. The amount to be paid depends on the number of years of service and the employee's salary at termination of the employment.

Defined benefit plans include jubilee benefits. Jubilee provisions are special one-off payments stipulated in the collective agreement which are dependent on remuneration and duration of service. Eligibility is conditioned on a certain minimum duration of the employment.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, statistical data but also anticipated future rates of increase in salaries.

The liability recognised under a defined benefit plan represents the present value of the defined benefit obligation.

Remeasurements consist of actuarial gains and losses on the defined benefit obligations. Remeasurements of severance defined benefit plans are recognised as accumulated OCI in equity specifically under 'Remeasurement of defined benefit pension liabilities' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Remeasurement of defined benefit plans'. Remeasurements of jubilee defined benefit plans are recognised in the statement of income under the line item 'Personnel expenses'.

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Assumptions, estimates and sensitivities used for the defined benefit obligation calculations, as well as related amounts are disclosed in the section 'Long-term employee pension provisions'.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

The Bank as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. This amount is subsequently amortised to fee income. If no premium is received at contract inception (i.e. the initial transaction price is zero), this is the price that would be paid to transfer the liability in an orderly transaction between market participants. As a result, the fair value of such a financial guarantee and thus the initial measurement is nil. Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium. They are presented on the balance sheet under the line 'Provisions'. The premium received is recognised in the statement of income under the line item 'Fee and commission income' under 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

If the Bank is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk is guaranteed. The Bank considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. In the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether the Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures in Note 25 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 34 Contingent liabilities.

Provision for commitments and financial guarantees given

Provisions for commitments and financial guarantees were created to cover losses expected in unused loan commitments, guarantees and letters of credits. The amount of these provisions is estimated with respect to credit risk relating to affected items, as well as time value of money (i.e. current market interest rates used for discounting).

The following table presents movements in the provision for commitments and financial guarantees:

EUR ths.	01.01.2021	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2021
Provisions for commitments and guarantees given						
Stage 1	3,812	29,513	(18,331)	(9,550)	(86)	5,358
Stage 2	11,658	-	(9,215)	(2,250)	7,251	7,444
Stage 3	539	-	(1,643)	526	1,150	572
POCI	275	-	(7,098)	18,100	-	11,277
Total	**16,284**	**29,513**	**(36,287)**	**6,826**	**8,315**	**24,651**

EUR ths.	01.01.2020	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2020
Provisions for commitments and guarantees given						
Stage 1	3,363	30,837	(9,906)	(20,463)	(19)	3,812
Stage 2	1,718	-	(2,548)	3,994	8,494	11,658
Stage 3	957	-	(336)	(203)	121	539
POCI	170	-	(59)	164	-	275
Total	**6,208**	**30,837**	**(12,849)**	**(16,508)**	**8,596**	**16,284**

Movement table of credit loss allowances above represents changes in allowances disclosed based on the reason of the change and is prepared as at the end of the reporting period in comparison to the balance as at 1 January of the relevant reporting period. The table contains allocations, releases of the credit loss allowances and reclassifications between stages. Reconciliation of such movements to income statement line „Impairment result from financial instruments“ is disclosed in note 9 Impairment result from financial instruments.

In column 'Increases due to origination and acquisition' increases of credit risk allowances due to the initial recognition of commitments and guarantees given during the current reporting period are disclosed. Releases of credit risk allowances following the derecognition of the related commitments and guarantees given are reported in column 'Decreases due to derecognition '.

Long-term employee provisions

The Bank has a defined employee benefit program under which all employees are entitled to a lump-sum payment upon working anniversaries or retirement. The number of employees under this program is disclosed in the note 8 General administrative expenses.

The amount of long-term employee provisions is calculated using an actuarial model based on the projected unit credit method. The Bank performes annual review of the long-term employee benefits provisions using updated data in order to recognize the provisions in appropriate amounts.

The amounts relating to long-term employee provisions recognised on the balance sheet, in the income statement and in the statement of other comprehensive income were as follows:

EUR ths.	Long-term employee provision	Severance payments	Working anniversaries provision	Total
Present value of long-term employee benefit obligations – 1 January 2020	**3,223**	**-**	**2,723**	**5,946**
Service cost	309	-	299	608
Interest cost	-	-	8	8
Payments	(182)	-	(235)	(417)
Actuarial gains/losses recognised in OCI	1,014	-	461	1,475
Experience adjustments	1,014	-	461	1,475
As at 31 December 2020	**4,364**	**-**	**3,256**	**7,620**

EUR ths.	Long-term employee provision	Severance payments	Working anniversaries provision	Total
Service cost	270	-	267	537
Interest cost	1	-	-	1
Payments	(214)	-	(249)	(463)
Actuarial gains/losses recognised in OCI	74	-	(192)	(118)
Experience adjustments	74	-	(192)	(118)
As at 31 December 2021	**4,495**	**-**	**3,082**	**7,577**

Actuarial assumptions

The actuarial calculation of long-term employee provision used the following assumptions:

Long-term employee provision	31.12.2020	31.12.2021
Annual discount rate	0.01%	0.17%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3,73 % - 9,65 %	4,28% - 10,95%
Retirement age	64 years	64 years

The actuarial calculation of working anniversaries provision used the following assumptions:

Working anniversary provision	31.12.2020	31.12.2021
Annual discount rate	0.01%	0.17%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3,73 % - 9,65 %	4,28% - 10,95%
Retirement age	64 years	64 years

In the calculation of long-term employee provisions official mortality tables published by the Statistical Office were used.

Sensitivity to key assumption

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at the balance sheet. The analysis is based on relative change in employee turnover by 10%.

EUR ths.	31.12.2020	31.12.2021
Change in the annual employee turnover +10%	4,151	4,271
Change in the annual employee turnover -10%	4,384	4,732

Provisions for pending legal issues and tax litigation and other provisions

Provisions for legal issues relate to legal cases where the Bank is sued and which arose from normal banking activities. During the reporting period the Bank does not participate in any new passive legal cases.

The item ‘Other provisions´ includes provision on contribution to Resolution fund and provision on contribution to Deposit protection fund during the year. When the actual amount of contributions is announced, the payment is accounted for as utilisation of particular provision. Both contributions for the year 2021 were paid in full amount, therefore the Bank does not disclose these items as other provisions.

The following table presents development of legal issues and tax litigation as well as other provisions:

EUR ths.	01.01.2021	Additions	Use	Release	31.12.2021
Restructuring provision	1,547	-	(1,220)	(77)	250
Pending legal issues and tax litigation	5,553	4,132	(83)	-	9,602
Other provisions	832	32,070	(14,091)	(17,678)	1,135
Total	**7,932**	**36,204**	**(15,394)**	**(17,755)**	**10,987**

EUR ths.	1.1.2020	Additions	Use	Release	31.12.2020
Restructuring provision	77	1,470	-	-	1,547
Pending legal issues and tax litigation	5,281	523	(2)	(249)	5,553
Other provisions	2	12,523	(5,052)	(6,641)	832
Total	**5,360**	**14,516**	**(5,054)**	**(6,890)**	**7,932**

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

34. Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do involve credit risk and are therefore part of the overall risk of the Bank (see Note 25 Credit risk).

Legal proceedings

The Bank is involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of the Bank.

CAPITAL INSTRUMENTS, EQUITY AND RESERVES

35. Total equity

in EUR ths.	31.12.2020	31.12.2021
Subscribed capital	212,000	212,000
Additional paid-in capital	-	-
Retained earnings and other reserves	1,248,004	1,434,032
Additional equity instruments	300,000	380,000
Owners of the parent	**1,760,004**	**2,026,032**
Total	**1,760,004**	**2,026,032**

As of 31 December 2021, subscribed capital (also known as registered capital) consists of 212,000 (2020: 212,000) voting shares (ordinary shares). Nominal value of share is EUR 1,000.00. Subscribed capital was fully paid. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

Additional equity instruments

Name	ISIN	Nominal value	Currency	Issue date	Initial fixed rate	Reset rate after the first call date	Coupon payments	First and subsequent calls dates
EUR 80,000,000 Undated Fixed to Fixed Resettable Additional Tier 1 Notes	AT0000A2UFJ4	80,000,000	EUR	30.11.2021	4.49% p.a.	M/S + 457 bps	Semi-annually	30.11.2026 and each Distribution Payment Date following the First Reset Date
SLSP AT1 PNC5 IC 2020 II	SK4000018172	150,000,000	EUR	23.11.2020	4.82% p.a.	M/S + 527 bps	Semi-annually	23.11.2025 and each Distribution Payment Date following the First Reset Date
SLSP AT1 PNC5 IC 2020	SK4000016788	150,000,000	EUR	27.2.2020	4.15% p.a.	M/S + 449 bps	Semi-annually	27.2.2025 and each Distribution Payment Date after 27.2.2025 falling one year after the previous Call Redemption Date

Distributions on own equity instruments

Distributions on own equity instruments are recognised when their payment is confirmed. For dividends on common shares as well as for coupons on Additional Tier 1 instruments the decision is taken by the Annual General Meeting.

The following table presents distribution of individual profits of the Bank for the years 2020 (approved) and 2021 (proposed):

Profit distribution	31.12.2020	31.12.2021
Profit for the year (in EUR ths.)	114 633	239 428
Coupon payment for Investment certificate 2015 SLSP AT1 PNC5	-	-
Coupon payment for Investment certificate SLSP AT1 SK4000016788	6 225	6 225
Coupon payment for Investment certificate SLSP AT1 SK4000018172	7 230	7 230
Coupon payment for Investment certificate SLSP AT1 AT0000A2UFJ4	-	3 592
Dividends paid to shareholder from profit for the year	40 471	97 158
Transfer to retained earnings	60 707	125 223
Number of shares with nominal value of EUR 1 000 (in pcs.)	212 000	212 000
Dividend per share (in EUR)	**191**	**458**

Dividends for the year 2020 were paid in March 2021 following the resolution of General Assembly of the Bank dated 24 March 2021.

Additionally the first portion of coupon payment from investment certificate 2015 SLSP AT1 PNC5 II in amount of EUR 3.6 million was paid from retained earnings as at 23 May 2021.

As at 27 August 2021 was paid the first portion of coupon payment from investment certificate 2015 SLSP AT1 PNC5 in amount of EUR 3,1 million. The second portion was paid in amount of EUR 3.6 million as at 23. November 2021.

Legal reserve fund

According to Commercial Code all companies are required to create a legal reserve fund to cover adverse financial conditions in the future. The Bank is obliged to contribute to the fund the amount, which is not less than 10% of its annual net profit until the cumulative amount of annual contributions reaches 20% of its share capital. As at 31 December 2021 Legal reserve fund amounted to EUR 79.8 million (2020: EUR 79.8 million) and in both years exceeded the required 20% of the share capital. Legal reserve fund is not available for distribution to the shareholder.

Other funds

Other funds include only Statutory fund created from distributable profits to strengthen the Bank's capital base. This fund is not available for distribution to the shareholder. Once the Bank's share capital or legal reserve fund is increased, Statutory fund may be terminated and transferred back to the distributable profits with the approval of the Supervisory Board and of the General Assembly. As at 31 December 2021 Statutory fund amounted EUR 39.1 million (2020: EUR 39.1 million).

Fair value reserve

Fair value reserve represents the unrealised revaluation of financial assets measured at fair value through other comprehensive income. This reserve is not available for distribution to the shareholder. As at 31 December 2021 the revaluation of financial assets measured at fair value through other comprehensive income amounted to EUR 0.0 million (2020: EUR 0.0 million), net of deferred tax.

Remeasurements of defined benefit pension liabilities

This equity component reflects the results of actuarial calculations related to the pension provision. As at 31 December 2021 the remeasurement of the pension provision amounted EUR 1,8 million (2020: EUR 1.7 million), net of deferred tax.

36. Subsidiaries

The Bank holds controlling interests in the subsidiaries described in the table below. In these separate financial statements the subsidiaries are recognised at cost, less any impairment losses.

Subsidiaries are recognized on the balance sheet from the date when control is obtained until the date when control is lost. Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with the subsidiary (the investee) and has the ability to affect those returns through its power to govern the relevant activities of this company. Relevant activities of the company are those which most significantly affect the variable returns of an entity.

The following table presents overview of the carrying amounts of investments in subsidiaries:

EUR ths.	Cost		Impairment		Net book value	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Subsidiaries						
Procurement Services SK, s.r.o.	3	3	-	-	3	3
Služby SLSP, s. r. o. v likvidácii	14,903	-	-	-	14,903	-
S Slovensko, spol. s r.o.	24,848	-	-	-	24,848	-
SLSP Social Finance, s.r.o.	2,050	3,050	-	-	2,050	3,050
LANED a.s.	25,807	25,807	-	-	25,807	25,807
Total	**67,611**	**28,860**	**-**	**-**	**67,611**	**28,860**

Investments in subsidiaries of Slovenská sporiteľňa, a.s.

EUR ths.	Služby SLSP, s. r. o. v likvidácii		LANED,a.s.		Procurement Services SK, s.r.o.		S Slovensko, spol. s r.o.		SLSP Social Finance, s.r.o.	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Place of business	Tomášikova 48, 832 01 Bratislava, Slovenská republika		Tomášikova 48, 832 71 Bratislava, Slovenská republika		Tomášikova 48, 832 75 Bratislava, Slovenská republika		Tomášikova 48, 831 04 Bratislava, Slovenská republika		Tomášikova 48, 832 01 Bratislava, Slovenská republika	
Main business activity	Ancillary bank services		Real estate company		Procurement		Leasing company		Advisory services	
Ownership held	100%		100%		51%		100%		100%	60.40%
Voting rights held	100%		100%		51%		100%		100%	60.40%
IFRS Classification	Subsidiary		Subsidiary		Subsidiary		Subsidiary		Subsidiary	
Reporting currency	EURO		EURO		EURO		EURO		EURO	
Dividend income received	-	-	-	-	19	19	-	-	-	-
Investee's key financial information for the reporting year										
Cash and cash balances	25,964	-	4,028	4,043	166	245	25,631	-	56	267
Other current assets	-	-	9	103	102	57	217	-	-	-
Non-current assets	-	-	52,299	49,258	31	36	440	-	1,980	11,730
Current liabilities	-	-	26,567	21,849	-	-	-	-	-	7,012
Non-current liabilities	14	-	302	133	238	278	785	-	-	8
Operating result	(84)	(18)	2,445	2,527	(918)	(938)	(825)	-	(15)	(57)
Post-tax result from continuing operations	(342)	(18)	1,866	1,956	36	36	(1,029)	-	(15)	(57)
Total comprehensive income	(342)	(18)	1,866	1,956	36	36	(1,029)	-	(15)	(57)
Depreciation and amortization	-	-	(3,683)	(3,653)	-	-	(29)	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	(485)	(403)	-	-	-	-	-	(10)
Tax expense/income	-	-	(496)	(520)	(11)	(11)	(262)	-	-	-

Changes in subsidiaries during the year 2021

On 1 April 2021 the subsidiary S Slovensko, spol. S r. o. was merged with the Bank with impact of EUR 24.8 million to line item "Cash and cash balances" and EUR 0.4 million to the line item "Deferred tax asset". On 28 May 2021 has been completed the liquidation of the subsidiary Služby SLSP, s. r. o. in liquidation and a liquidation residue was distributed among its shareholders. Slovenská sporiteľňa, a.s. as a shareholder with 100 % share received a liquidation payment in the amount of EUR 26.0 million. In September 2021 the Bank additionally increased equity contribution to the subsidiary SLSP Social Finance, s.r.o. by EUR 1 million. As at 31 December 2021, the value of the investment in this subsidiary was EUR 3.1 million.

During 2021, the ownership share of SLSP Social Finance, s.r.o. have decreased from 100% (31.12.2020) to 60.40% (31.12.2021) due to the accession of another investor to the company.

Changes in subsidiaries during the year 2020

In February 2020 a subsidiary, SLSP Social Finance, s.r.o., was established in which the Bank has an ownership interest in the amount EUR 2.1 million and therefore represents a 100% share of the company's share capital. In April 2020 the Bank also acquired the ownership interest in the company LANED a.s. as a 100% share in the equity of the company at cost in the form of cash consideration in amount of EUR 25.8 million from its subsidiary Služby SLSP, s. r. o. In March 2020 an associate, Dostupný Domov j.s.a. was established by the Bank´s subsidiary SLSP Social Finance, s.r.o. which has an ownership interest in the associate in the amount EUR 2.0 million and represents a 49.88% share of the company's share capital.

37. Investments in associates

The Bank has significant influence in the associates described in the table below. In these separate financial statements the investments in associates are recognized at cost, less any impairment losses.

Investments in associates ('associates') represent entities over which the Bank exercises significant influence. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control of those policies.

The following table presents overview of the carrying amounts of investments in associates:

EUR ths.	Cost		Impairment		Net book value	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Associates						
Prvá stavebná sporiteľňa, a.s.	1,093	1,093	-	-	1,093	1,093
Slovak Banking Credit Bureau, s.r.o.	3	3	-	-	3	3
Holding Card Service s.r.o.	7,046	7,046	-	-	7,046	7,046
Total	**8,142**	**8,142**	**-**	**-**	**8,142**	**8,142**

Investments in associates of Slovenská sporiteľňa, a.s.

EUR ths.	Prvá stavebná sporiteľňa, a.s. 31.12.2020	Prvá stavebná sporiteľňa, a.s. 31.12.2021	Slovak Banking Credit Bureau, s.r.o. 31.12.2020	Slovak Banking Credit Bureau, s.r.o. 31.12.2021	Holding Card Service s.r.o. 31.12.2020	Holding Card Service s.r.o. 31.12.2021	Dostupný Domov j.s.a. (49,88% associate of SLSP Social Finance, s.r.o.) 31.12.2020	Dostupný Domov j.s.a. (49,88% associate of SLSP Social Finance, s.r.o.) 31.12.2021
Place of business	Bajkalská 30 829 48 Bratislava, Slovenská republika		Mlynské nivy 14 821 09 Bratislava, Slovenská republika		Olbrachtova 1929/62 140 00 Praha 4, Česká republika		Farská 48 949 01 Nitra, Slovenská republika	
Main business activity	Banking		Retail credit register		Equity release company		Rental of real estate and related services	
Ownership held	9.98%	9.98%	33.33%	33.33%	24.62%	21.78%	-	49.88%
Voting rights held	35.00%	35.00%	33.33%	33.33%	24.62%	21.78%	-	49.88%
IFRS Classification	Associate		Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO		EURO	
Investee's key financial information for the reporting year								
Cash and cash balances	925	650	263	214	7	5	2,329	19,954
Other financial assets	2,860,315	2,848,544	9	47	-	-	1	4
Non-financial assets	89,732	89,528	-	-	29,419	43,574	1,625	3,034
Current liabilities	2,667,611	2,638,331	24	5	-	-	(94)	(48)
Non-current liabilities	16,912	17,084	-	-	-	-	(37)	(26)
Operating Income	38,399	37,505	25	26	(1)	(3)	(144)	(211)
Post-tax result from continuing operations	7,602	16,576	24	24	(1)	(3)	(146)	(217)
Total comprehensive income	7,602	16,576	24	24	(1)	(3)	(146)	(217)
Depreciation and amortization	(5,734)	(5,947)	-	-	-	-	(17)	(72)
Interest income	88,695	86,156	-	-	-	-	-	-
Interest expense	(28,997)	(26,795)	(1)	(2)	-	-	-	(1)
Tax expense/income	(2,746)	(5,206)	-	-	-	-	-	-

The classification of current and non-current financial assets and liabilities is based on the expected remaining maturities of assets and liabilities.

Changes in associates during the year 2021

During 2021, the ownership share of Holding Card Service, s.r.o. have decreased from 24.62% (31.12.2020) to 21.78% (31.12.2021) due to the accession of another investor to the company.

Changes in associates during the year 2020

There were no significant changes in investments in associates during 2020.

OTHER DISCLOSURE MATTERS

38. Related-party transactions and principal shareholders

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by the only shareholder Erste Group Bank AG, which directly owns 100% share on the voting rights of the Bank. Further related parties include subsidiaries, which are under control of the Bank and associates, over which the Bank has significant influence. Moreover, other members of the Erste Group are also related parties of the Bank.

Transactions with related parties occur in the normal course of business and primarily include loans and deposits. These transactions are performed at arm's length, i.e. the terms and conditions applied respect market conditions.

Balances exposures with related parties:

	Erste Group Bank AG		Companies of Erste Group		Subsidiaries		Associates	
EUR ths.	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Assets								
Cash and cash balances	7,681	5,261	3,155	225	-	-	-	-
Derivatives	7,996	6,834	-	27	-	-	-	-
Derivatives – Hedge accounting	28,095	11,540	-	-	-	-	-	-
Securities	-	-	-	-	-	5,996	5,255	5,254
Loans and advances to banks	1,934	1,805	85	62	-	-	3	1
Loans and advances to customers	-	-	1,904	1,989	26,583	21,851	-	-
Property and equipment, right-of-use	-	-	-	-	19,274	12,255	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**45,706**	**25,440**	**5,144**	**2,303**	**45,857**	**40,102**	**5,258**	**5,255**
Liabilities								
Derivatives held for trading	48,043	39,643	2	-	-	-	-	-
Deposits from banks	51,410	676	470	1,170	-	-	213	189
Deposits from customers	-	-	3,185	6,307	55,802	4,552	-	-
Debt securities issued	679,377	573,274	3,020	2,988	-	-	-	-
Derivatives – hedge accounting	48,373	31,844	-	-	-	-	-	-
Lease liabilities	-	-	-	-	19,301	12,282	-	-
Other liabilities	251	2,873	1,567	332	-	(46)	-	-
Total	**827,454**	**648,310**	**8,244**	**10,797**	**75,103**	**16,788**	**213**	**189**

Expenses/Income generated by transactions with related parties:

	Erste Group Bank AG		Companies of Erste Group		Subsidiaries		Associates	
EUR ths.	2020	2021	2020	2021	2020	2021	2020	2021
Interest income	(7,511)	(7,818)	326	7	485	409	130	100
Interest expense	(288)	1,644	(10)	(8)	-	-	-	(10)
Dividend income	-	-	493	-	19	18	-	-
Net fee and commisssion income	(97)	(473)	8,110	13,494	190	33	1	1
Net trading result	(2,733)	14,352	438	(226)	-	-	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	-	-	-	-	-	61	-	-
General administrative expenses	(3,530)	(6,006)	(16,190)	(17,856)	(1,035)	(1,014)	-	-
Depreciation and amortisation	-	-	-	-	(7,018)	(7,018)	-	-
Other operating result	169	(2,048)	699	477	234	11,050	8	7
Total	**(13,990)**	**(349)**	**(6,134)**	**(4,112)**	**(7,125)**	**3,539**	**139**	**98**

Transactions with related parties are done at arm’s length.

The amounts with Erste Group Bank AG reported in the line items ’Interest income’ and ‘Net trading result’ represent results from derivative instruments used to close positions with the clients.

All issued investment certificates disclosed as AT1 instruments in equity at 31 December 2021 were purchased by Erste Group Bank AG (see note 35).

The Bank received guarantees from its parent company Erste Group Bank AG covering clients’ exposures in the amount of EUR 2.2 million as at the reporting date (2020: EUR 2.2 million).

The Bank does not have a guarantee from its sister company Česká spořitelna, a.s. covering credit exposures towards s_Autoleasing SK, s.r.o. as at 31 December 2021 any more however the amount of this guarantee in 2020 was EUR 9.0 million.

The Bank received guarantees from its sister company Česká spořitelna, a.s. covering clients’ exposures in the amount of EUR 0.2 million as at the reporting date (2020: EUR 0.2 million).

As at 31 December 2021 the Bank owned a share in real estate fund Sporo realitny fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount EUR 1.4 million (2020: EUR 1.7 million).

As at 31 December 2021 and in 2020, the Bank did not receive any dividends from its associates

Remuneration of management and supervisory board members

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2021 in form of short-term employee benefits amounted to EUR 3.2 million (2020: EUR 2.5 million). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

39. Audit fees and tax consultancy fees

The following table contains fees charged by the auditors of the Bank for the financial years 2021 and 2020; the auditors being PricewaterhouseCoopers Slovensko, s.r.o..

EUR ths.	2020	2021
Audit of statutory financial statements	(525)	(546)
Other assurance services	(144)	(170)
Other non-audit services	(3)	(3)
Total	**(672)**	**(719)**

Other assurance services in the amount of 170 ths. EUR (2020: 144 ths. EUR) related to a review of the special-purpose standard reporting forms; reports ISAE 3000 and ISAE 3402 prepared in accordance with International Standard on Assurance Engagements, review of the report for the resolution body and services related to merger of S Slovensko, spol. s.r.o.. Other non-audit services in the amount of 3 ths. EUR (2020: 3 ths. EUR) related to agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development.

40. Analysis of remaining maturities

Expected remaining maturities of assets and liabilities

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2020		31.12.2021	
Assets				
Cash and cash balances	1,717,486	-	2,907,420	-
Financial assets HfT	2,084	57,910	11,181	36,693
Derivatives	2,084	57,910	11,181	36,693
Non-trading financial assets at FVPL	-	15,287	-	21,064
Equity instruments	-	7,547	-	7,155
Debt securities	-	7,740	-	13,909
Financial assets at AC	2,114,337	16,171,127	2,215,545	17,302,993
Debt securities	159,354	3,520,350	70,425	3,841,234
Loans and advances to banks	49	-	49,983	-
Loans and advances to customers	1,954,934	12,650,777	2,095,137	13,461,759
Finance lease receivables	67,297	173,715	63,112	170,323
Hedge accounting derivatives	-	34,345	-	16,454
Property and equipment, right-of-use assets	-	119,345	-	110,972
Investment properties	-	1,898	-	1,518
Intangible assets	-	18,947	-	18,947
Investments in associates	-	75,753	-	37,002
Deferred tax assets	-	75,666	-	67,843
Trade and other receivables	81,597	-	128,930	-
Other assets	20,947	-	35,692	-
Total assets	**4,003,748**	**16,743,993**	**5,361,880**	**17,783,809**

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2020		31.12.2021	
Liabilities				
Financial liabilities HfT	1,938	54,586	11,782	34,349
Derivatives	1,938	54,586	11,782	34,349
Financial liabilities at AC	15,241,687	3,467,621	16,306,933	4,546,116
Deposits from banks	32,664	1,677,591	34,929	2,858,418
Deposits from customers	14,886,802	38,015	15,949,101	28,214
Debt securities in issued	299,716	1,752,015	286,377	1,659,484
Other financial liabilities	22,505	-	36,526	-
Lease liabilities	13,057	26,821	13,180	19,153
Hedge accounting derivatives	2,320	46,053	-	31,844
Provisions	18,663	13,173	26,034	17,180
Current tax liabilities	21,908	-	2,193	-
Other Liabilities	79,910	-	110,892	-
Total liabilities	**15,379,483**	**3,608,254**	**16,471,014**	**4,648,642**

41. Events after the balance sheet date

There are no significant events after the balance sheet date.

STATEMENT OF MEMBERS OF THE MANAGEMENT BOARD

We confirm that to the best of our knowledge the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank as required by the applicable accounting standards and that the Bank management report gives a true and fair view of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties to which the Bank is exposed.

Ing. Peter Krutil

Chairman of the Board of Directors
and Chief Executive Officer
Officer

Ing. Pavel Cetkovský

Member of the Board of Directors
and Deputy of Chief Executive

Bratislava, 15 February 2022

www.sisp.sk