Slovenská sporiteľňa, a.s., Member of Erste Group **Annual report 2022**

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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 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 190 branches for retail clients and 4 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 AG consolidates through direct or indirect shareholdings. At present, the Erste Group has around 47 000 employees serving more than 16 million clients at over 2 000 branches in seven countries: Austria, Czech republic, Slovak Republic, Romania, Hungary, Croatia and Serbia).

Shareholder structure of Slovenská sporiteľňa as at 31/12/2022

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 Seed Starter, s.r.o.	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 31/12/2022

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 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 2022 as required by § 34(3) of the Stock Exchange Act. This annual report also includes, under note 34 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.

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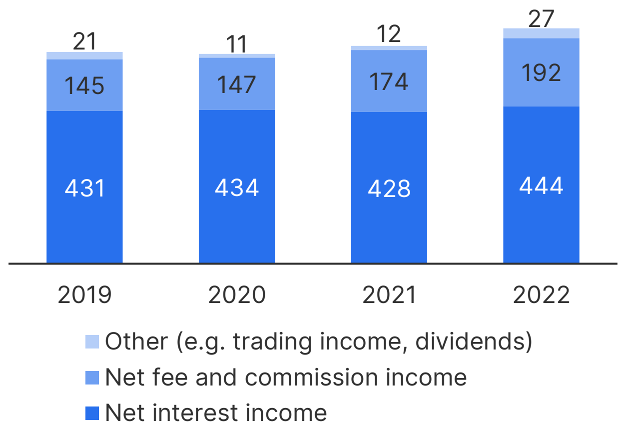
www.erstegroup.com/en/investors/reports/financial-reports

[1] Under a shareholder agreement with Erste Group 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.

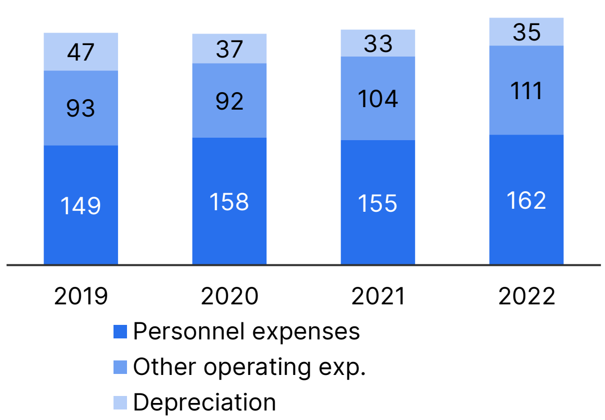
Financial Highlights

Consolidated results	31 Dec 2018	31 Dec 2019	31 Dec 2020	31 Dec 2021	31 Dec 2022
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	17,443	18,619	20,706	23,154	23,746
Loans and advances to banks	48	0	0	50	0
Loans and advances to customers (net)	13,008	14,113	14,902	15,898	17,929
Investments	3,721	3,743	3,817	4,028	4,300
Customer deposits	13,653	14,392	14,869	15,973	16,913
Equity	1,513	1,620	1,792	2,051	2,180
Net profit	184	180	108	228	243
Selected ratios	**(in %)**	**(in %)**	**(in %)**	**(in %)**	**(in %)**
Return on equity*	12.6	11.6	6.2	12.2	11.7
Return on assets*	1.1	1.0	0.6	1.0	1.0
Cost income ratio	48.3	48.3	48.5	47.6	46.3
Net interest margin*	2.7	2.5	2.4	2.2	2.1
Net loans to deposits ratio	95.3	98.1	100.2	99.5	106.0
Total capital adequacy	18.1	17.3	18.7	20.5	19.3
Tier 1 capital ratio	17.1	16.4	18.0	19.8	18.7
Other figures					
Number of employees	4,105	4,070	3,770	3,644	3,585
Number of branches	250	233	203	200	190
Number of ATMs	801	754	747	750	748

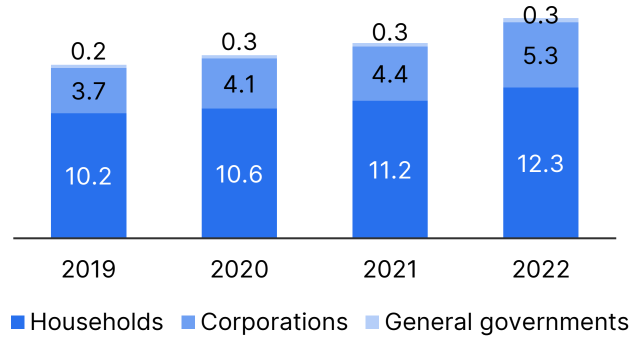
Operating income (in EUR million)



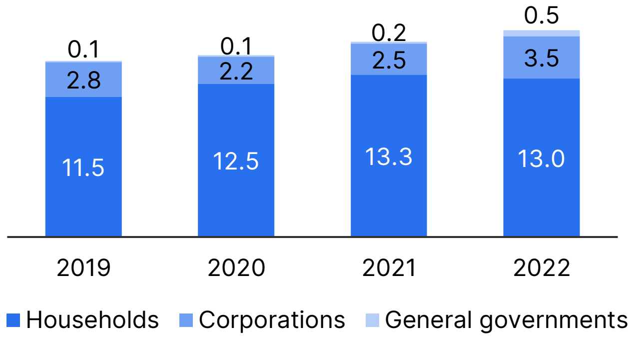
Operating expenses (in EUR million)



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

Two extreme events – the pandemic and the war – have completely redefined things that even quite recently we considered normal. The pandemic has now been with us for over three years. At first, we were frightened but we gradually learned to live with it and we found ways to defeat it. Scientific progress and a great deal of human effort have saved millions of lives. A year ago, a word that we had almost forgotten came back into our lives – war.

The Russian invasion of Ukraine understandably shocked us because it is our neighbour and we could soon have enemy soldiers on our borders. However, just as scientists and politicians were able to come together and find a way to deal with the pandemic, the democratic world united behind Ukraine's fight for their freedom and ours. I know that a bank's annual report is not the sort of place you expect to see words like these, but they are important for at least two reasons: Firstly, our freedom and security are really on the line. Secondly, the war has had an adverse effect on nearly everything that we have experienced (not only) in the economy.

It began with the unbelievable jump in energy prices, but also in uncertainty about supplies. Inflation became Slovakia's word of the year. We forgot what it was like and suddenly it reached levels not seen for decades. Its arrival was just a matter of time because there had never been such an extended period of low or negative interest rates. The response to inflation and other factors transformed the world of banking. People and firms had to deal with the situation and we can see that they have changed their behaviour.

The most turbulence from the surge in interest rates was felt in the mortgage market. Sales broke records in the spring but since the summer we noticed a sharp cooling in demand. Uncertainty made people cautious about investing and rapid price rises gradually ate into their disposable incomes. The good news is that there have not been such large withdrawals of investments as might have been expected based on past experience. The situation has also affected the businesses. The need to refinance operating loans has increased as energy and material prices have shot upwards, and volatility has made planning impossible. Other important factors are impediments in relations between customers and suppliers and the total transformation of east-west logistics required by the war.

Firms are therefore expecting the economy to cool and getting ready for this. As we are one of the links in the chain, we too must be prepared. It means taking more precautions and placing a stronger emphasis on client care and support. People often say that we bankers hand out umbrellas when the sun is shining. We are proving that proverb wrong by helping our clients in their times of need, which the present time certainly qualifies as. In cooperation with our corporate clients, we are reviewing their financing to adapt it to the new conditions. Thanks to an innovative solution, the "Financial Health Index", we can show them the current state of their finances and how they compare with their competitors. Many clients are changing their business model and their needs for financing. A significant milestone which shows that we are on the right track is our share of the corporate loan market going above 20% for the first time.

The most valuable assets in our bank are our employees. We have never had such intensive discussions as now about how to meet their needs through pay and other policies. We try to provide ways for people to fulfil themselves, for example by working remotely or through our foundation. Many people thus not only have successful careers but also contribute to their local community. We aim to be an attractive employer for women aiming to have a family and we therefore offer them various benefits.

This brings us to a special colleague. It is now about a year since we introduced Vesna, our first 3D holographic banker. You might have met and spoken with her at our Bratislava Nivy branch. She also functions as a chatbot on the Bank's website, where she significantly eases the load on our colleagues in the Client Centre. New technologies enable us to offer people experiences that would have been considered sci-fi not so long ago. Maybe they will become the norm within a few years, and not just in banks.

Although chatbots and voicebots are an increasingly frequent tool for communication with customers, the visual presentation is unique even on the world stage. Nevertheless, we do not aim for Vesna to replace people. She is intended to free her human colleagues from routine tasks so that they can spend more time giving high-quality personal advice. What I like best about the project is that it is entirely made in Slovakia, with Slovak firms contributing to the development of Vesna's technology.

As a digital leader, we are expected to lead the way with innovations and we welcome the challenge. Naturally, we need to offer useful innovations. For example, instant payments. More than 20 million payments that do not take a day or more but just a few seconds. We believe that our clients also appreciate this sort of banking. They are very open to digital services, with nearly 30% of our products now being sold online. Just in the last year, we have added tools for improving financial health, not only for retail clients – for example, the investment plan – but also companies, for whom we offer the financial health index. We have received excellent feedback on these tools from our clients and I hope that this year we will benefit together with them.

You are probably waiting for me to talk about our financial results, but once again I will leave that until the end. I would like to mention a few other firsts, because we really had a fine crop of them in 2022. We won two "bank of the year" titles. First from the British magazine Euromoney and later in the Trend Top awards. It is always a pleasure when someone recognises your good work. I am also especially pleased that our clients appreciate us. Last year we passed the one million active clients mark. We have been working for this for a long time and we had to make quite a lot of changes, so I want to thank all of you for this success. We want to keep going though and have even more active clients.

Behaving responsibly to the planet, the country and people is part of the brand identity of Slovenská sporiteľňa. In recent years, "sustainability" has become a watchword for the Bank and nearly every employee has met with the abbreviation "ESG". As a bank, we monitor the carbon footprint both from our own operations and from the emissions we finance. We also have obligations to society. Diversity and inclusion are no longer frightening foreign words and we continue to support many activities in the fields of culture, sport and civil society. The FinQ programme is improving financial literacy in schools. Our colleagues in the social bank are supporting people getting started with their own business and at the same time working miracles for people in truly difficult financial situations. Further evidence that we honour our commitments comes from green bonds. We were the first bank to issue them because our responsibility to the planet is more urgent than ever and we have noticed people thinking the same way when they invest.

This brings me to a project close to my own heart – Seed Starter, our corporate venture capital programme, which is the first of its kind in Slovakia. Not many people know that for over seven years we have been the one bank in Slovakia to support starting entrepreneurs and Seed Starter extends our activities for the development of the business environment. We have two reasons for this. Firstly we believe that it is impossible to change the structure of the economy without improving the business environment. Secondly, we feel it to be our duty. We are one of the top three corporate banks in the market and we see a gap in connection with low expertise in the area among both clients and banks. We see that clients need more than just finance, and this is what makes the project unique. Alongside financing, we can connect clients with specialists in the sector which they want to do business in. We will also involve our existing clients, facilitating consultation so that we can help start-ups get into the market with them. We aim to create an infrastructure that gives firms access not just to money but also know-how, and thereby inspires others.

If you have read this far, I believe you also find this interesting. I did not want this to be a summary of dry numbers. Data are important but the story behind them is even more important. That is why I wanted to begin by telling you what we are working on, what we worry about and what brings us joy. As to the numbers, they suggest our current situation is favourable for banking. The era of extremely low interest rates was good for clients and we liked helping them, but it was not a business model that could sustain us forever. In the last ten years the volume of loans more than doubled, but the profitability of banks was largely unchanged. Record profits were made, but those numbers must not be taken out of context. The profitability of Slovak banks remains below the European average for the sector. We cannot afford such low profitability and financial health. I do not mean to complain. I am thinking mainly of the future. In recent years we have learned to expect the unexpected. It is important to remember that banks were and are important in dealing with these crises. Not only during the pandemic but also with more expensive energy and production inputs. We have not turned off the taps. We are still supporting the economy. We can afford it because we have managed our capital well in our activities.

It is important to speak about our long-term strategy and the long-term influence on what is happening around us. How we affect our clients, employees and society. Decision-making in society and in politics seems to be all about the short-term effects. Processes which affect people, society or nature operating on a longer timescale are not so interesting. Companies like Slovenská sporiteľňa, the largest bank in the market, are well-placed to show how important it is to do things that may not make big changes in the short term but can be very influential in the long term. I am thinking of how we care for the environment or steps towards developing a capital market or a better business environment. In ten years, we could build not only successful small and medium enterprises but also a community which believes that the future is yours, which talks not only about winning but also thinks about how to maintain prosperity. I believe that as a society, we will continue to work together as we did during COVID.

I believe that Slovakia will emerge from this relatively difficult period in good shape and that after 2023, the economy will once again be running at full power. That is the world that I try to live in. I do not want to read the pessimistic scenarios that appear so often for Slovakia. Our Bank's forecast for this year suggests that it will not be as bad as we think or hear. As Julo Satinský says, not just in our advertisement, we should get things done. And try to reach agreement. If not on everything, then at least on the important things that can move us forward. That could really make for a better world.

Peter Krutil
Chairman of the Board of Directors and CEO

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 of Directors 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 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 Vice-chairman of the Board of Directors and first Deputy CEO of Slovenská sporiteľňa.

He was elected a Chairman of the Board of Directors and CEO of Slovenská sporiteľňa on 1 January 2018. He is responsible for management of the Staff Units line and Balance Sheet Management.

PAVEL CETKOVSKÝ
Member of the Board of Directors 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 Kyiv, Ukraine. In 1994, he began his professional career at Česká spořitelna, where he held several managerial positions in risk management and assets and liabilities management. He worked in Erstebank Kyiv 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.

He was elected a member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa with effect from 26 January 2018. 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.

JURAJ BARTA
Member of the Board of Directors and Deputy CEO

Juraj Barta is a graduate of Comenius University in Bratislava, majoring in physics – management. He holds a professional certificate and title as a CFA® (Chartered Financial Analyst®)

His professional career has been associated with Slovenská sporiteľňa almost from the beginning, having started in 2004 as a macroeconomic analyst. From 2007, he worked at the Bank as chief economist and since 2011 as Director of Marketing and Market Analysis. In 2018, digital banking and customer relationship management (CRM) were added to his field of responsibility.

He was elected a member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa with effect from 8 June 2022. He is responsible for the Retail Banking line.

NORBERT HOVANČÁK
Member of the Board of Directors 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.

He was elected a member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa with effect from 1 October 2019. He is responsible for the Corporate banking and Markets line.

MILAN HAIN
Member of the Board of Directors 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 member of the Board of Directors 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 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 with effect from 1 July 2018. He is responsible for the IT and Operations line.

SUPERVISORY BOARD OF SLOVENSKÁ SPORITEĽŇA, A.S.

DAVID O´MAHONY
Chairman

David O'Mahony graduated from the National University of Ireland in Cork with a degree in Computer Science and Mathematics. He started his professional career in 1985 at Bank of Ireland in Dublin as an analyst – programmer in the international banking department. He later worked as a programmer, project manager and consultant at several companies in the field of information technology development for financial institutions in London, Vienna and Prague. In 2015, he joined Erste Group, first as the manager responsible for overseeing the group's operational directors, then as the head of the IT sector within Holding. In January 2020, he became Chief Operating Officer (COO) of the entire Erste Group and a member of the Board of Directors of Erste Group Bank AG. He sits on the supervisory boards of companies focused on the development and implementation of IT solutions within the Erste Group.

He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2 February 2022. He was elected a Chairman on 23 February 2022.

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. Morgan Equity Research in London, where he worked in senior research positions until 2018. During this period Paul became the Director of CEEMEA Banks Equity Research and CEO 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 Vice-chairman of the Trade Union Committee in Slovenská sporiteľňa.

She was first elected to the Supervisory Board of Slovenská sporiteľňa in 2016. After her term of office expired on 2 November 2021, she was re-elected by the Bank's employees with effect from 2 February 2022.

JURAJ FUTÁK
Supervisory Board member elected by employees

Juraj Futák is a graduate of the Vrútky Grammar School. In 1996, he became a regional manager in the non-profit organisation Karta mládeže Slovenska (Slovakia Youth Card), and later an executive in Priemyselná banka, a.s. In 2000, he joined Slovenská sporiteľňa as a personal banker responsible for the affluent clients segment. In 2008 he became the chairman of the trade union branch in Žilina; since 2012 he has been a member of the trade union's company-level committee in Slovenská sporiteľňa.

He was elected to the Supervisory Board of Slovenská sporiteľňa by the employees of Slovenská sporiteľňa with effect from 2 February 2022.

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 and National bank of Slovakia Foundation, helps them make good financial decisions that can significantly improve their lives. In 2022 over 11 000 students absolved the programme.

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. In 2022 Slovenska sporiteľňa provided housing for 277 disadvantaged people.

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. Just in 2022, we planted 173 thousand tree saplings.

Supporting diversity and inclusion at the workplace

Creating a diverse workforce and an inclusive work culture is a long-term priority of the Bank. In 2022, the Bank adopted the first ever Diversity and Inclusion Strategy of Slovenská sporiteľňa, which has been an effective tool for improving the implementation of the Internal Diversity and Inclusion Policy that Slovenská sporiteľňa adopted in 2021.

Our strategic goals to 2025 are:

a) promoting an open, respectful and safe work environment throughout the Bank;
b) support for woman´s participation in Bank management; and
c) inclusion of persons with disabilities.

Since 2022, Slovenská sporiteľňa also has a new specialised position – manager for diversity and inclusion. The Bank has implemented training for diversity, inclusion, and equal treatment in the onboarding programme for new employees. During this programme, new employees also learn about the Bank's mechanisms to prevent harmful and abusive behaviour (e.g. bullying or sexual harassment) and its negative impacts.

Slovenská sporiteľňa also places great emphasis on the attitudes and experience of its employees. Therefore, in 2022, it organised several surveys – an engagement survey, the first edition of a survey on diversity and inclusion as well as a gender audit. The results of the surveys and the audit have enabled us to better understand their current level of diversity and inclusion in the workplace and to make decisions accordingly.

630 days

of voluntary work by employees

Working conditions

Safe and adaptable employment is part of the working culture of Slovenská sporiteľňa. Every year, it strives to improve the working conditions of its employees, to invest in their development and training, as well as improve opportunities for an effective work-life balance. In 2022, it organised 458 training workshops and activities, removed barriers to drawing certain benefits, and introduced new benefits, as well as entering into a new collective agreement with the company's trade unions.

As a resource for its employees' work-life balance and mental health, Slovenská sporiteľňa supports their participation in community organising and engagement. It provides employees a day off to volunteer as well as the opportunity to draw on grant funding to benefit their community. In 2022, Bank employees spent 630 days volunteering in their communities or working on other community service projects. In addition, our foundation financially supported 12 employee projects in the field of healthy lifestyle, education and sustainability in an amount of more than EUR 50 000.

The Bank cares about the environment

As one of the main pillars in the transformation towards sustainable development, environmental protection plays an important role in all the Bank's activities. Continuous reduction of energy consumption is among its main priorities, as well as reduction of emissions from operations, responsible waste sorting and minimisation of office paper consumption.

- 61%

reduction of emissions[2] from 2017

Slovenská sporiteľňa demonstrates its responsible approach to mitigating climate change through its participation (at the level of the parent company Erste Group) in the Net Zero Banking Alliance, as part of which it has committed itself to reducing the carbon footprint of its portfolio and achieving a Net-Zero portfolio by 2050. It thus directly contributes to achieving the goals of the Paris Agreement.

The Bank also supports the transition to a low-carbon economy and the promotion of environmental sustainability by offering responsible products and issued green bonds.

[2] In 2022, Slovenská sporiteľňa measured only Scope 1 (direct emissions) and Scope 2 (indirect emissions from energy consumption) emissions.

Customer Care

THE CLIENT IS ALWAYS THE CENTRE OF ATTENTION

Learning how our clients see us

Direct feedback from customers is one of the basic aids we use in setting the right course for the Bank. Slovenská sporiteľňa has long used a balanced combination of regular, ad hoc surveys, and data analyses. At the end is again the client – the aim of these activities is to identify opportunities to improve the client experience. Client satisfaction is included in the criteria (KPIs) for calculating the variable remuneration of all the Bank's staff.

Building clients´financial health is a strategic priority for Slovenská sporiteľňa

The overall score for satisfaction with the Bank remains consistently high, with year-on-year improvements in all sub-indicators across all criteria. Clients rate the two main channels they used to get in touch with the Bank – whether digital banking, getting advice, or being served in the branch network. Security, speed, and stability are the three main pillars of satisfaction in the digital channels. When being served in the branch network, the visual appearance of the branches, the staff's approach and their ability to explain the Bank's products and services are perceived highly positively.

94%

Customer satisfaction after visiting a branch

LEADER IN RETAIL BANKING

Popularity of digital channels continues to grow

With steady growth in the number of clients using George and due to client-oriented end-to-end processes with minimal clicks, the share of sales through digital channels increased substantially in 2022. The optimisation of campaigns based on transactional client behaviour also contributed to growth. Last but not least, the pandemic also naturally led to changes in client behaviour. Many of them now consider banking transactions via digital channels to be a matter of course. This is why Slovenská sporiteľňa is striving to bring new solutions in George for essentially all products, from loans to payment cards to insurance and investments.

28.1%

Share of digital sales

But it's not just about sales activities. In 2022, the Bank worked hard to make as many service activities available to clients where they have it most to hand – in George. These are products of daily use such as card blocking or PIN code display, but also credit products. The fact that customer servicing in George really does work is evidenced by the numbers of extra consumer and mortgage loan repayments, with over 80% of them being made online.

Branch tablet improves the client experience

During 2022, the Bank gradually began to move digital signing to the tablet, as the primary tool for client conversion and advice, with the aim of serving the client comprehensively on one device. The service is thus simple and transparent for clients.

Following the implementation of investment advice on the tablet, the share of advice in total sales grew significantly. The unique client experience thanks to the new E2E digital process led to this share rising to almost 80%.

For clients from Ukraine, George learned Ukrainian, and to help people in need in Ukraine, we implemented in George the option for clients do donate to a selected appeal.

In April 2022, we implemented investment advice on the tablet, where it then became an integral part of our service in the branch network. This has brought the whole process of selecting an investment solution even closer to clients.

Number one in household financing

In 2022, Slovenská sporiteľňa maintained its leading position in mortgage and consumer finance. It has the ambition to be the bank of first choice for existing clients who are considering financing their needs.

Mortgage appetite in 2022 was influenced by the progressive increase in interest rates over the year. Early indications of future interest rate rises have already caused a significant increase in mortgage demand across the market during the first half of the year. The second half of the year was subsequently characterised by subdued demand, with a number of factors contributing to this – higher interest rates, high inflation, and energy uncertainty. Despite the turbulent situation, the Bank maintained its market share in mortgage lending above 25% with year-on-year balance sheet growth of almost 11%.

The loosening of anti-pandemic measures and the general revival of interest in consumer finance across all sales channels enabled the Bank to fulfil its clients' consumer finance needs. Thanks to the focus on omnichannel loan sales, money is available to clients 24 hours a day, 7 days a week. With a market share above 28% Slovenská sporiteľňa reaffirmed its position as the bank with the largest portfolio of consumer loans.

Investments and insurance are already a "classic"

In addition to lending, investments and insurance have also become an integral part of customer care. A significant improvement was the launch of the process for setting up regular investments in George. Clients can invest according to investment topics that interest them, or which they trust. In addition, for clients with savings in investments, George now enables clients to make an extraordinary deposit.

€42.4 million

Net insurance brokerage commissions

For clients with insurance and late payment of insurance, George brought the possibility of quick payment of insurance premiums, while clients with pillar III savings can now make occasional extra contributions to their pension. Insurance coverage was extended to loans, as well as personal belongings and cards. Slovenská sporiteľňa wishes to continue providing improved solutions for clients also in the area of life insurance and to offer them meaningful coverage that reflects their current needs.

Nonetheless, the external environment was not so favourable to investments and partly also to insurance (with a capital component). Due to negative developments in the financial markets, the rising costs of current consumption and the war in Ukraine, customers were cautious in allocating their available funds. In February and March, the Bank recorded an increased volume of redemptions and cash withdrawals. On the positive side, these increased withdrawals managed to stabilise relatively quickly, indicating rising financial literacy and confidence in the banking sector. Despite the turbulent year, customers opened tens of thousands of new regular investments, with net mutual fund sales for the 2022 remaining positive. Added to this was increased interest in investment solutions with a known upfront return, i.e. bonds. Their sales volume increased more than fivefold.

The acquisition of new clients and their subsequent activation remain a priority for Slovenská sporiteľňa. We focus on clients from all segments, with an emphasis on supporting the young and families who have multiple products with us.

Our loyalty programme has undergone changes

As of March 2022, the Bank published new terms and conditions of the My Reward programme. The redesign of the programme was aimed at removing limiting conditions that were difficult for clients to follow. At the same time, the My Reward programme was made available to clients in the George mobile app. The implementation resulted in higher client satisfaction and was reflected in a decrease in complaints related to the loyalty programme.

Current accounts, too, saw modifications. The Bank simplified the range of current accounts available to the client and unified their names under the common name SPACE.

Despite the gradual cancellation of passbook accounts, we are successful in keeping a large share of funds at the Bank. The money is subsequently being reallocated to more modern and profitable forms of savings.

>1 million

active Slovenská sporiteľňa clients

Affiliate network with an emphasis on advice

Slovenská sporiteľňa with 190 branches and 748 ATMs remains the bank with the most accessible physical distribution network. The world of banking has been changing significantly in recent years. Even with the contribution of the pandemic, clients are increasingly preferring to move cash and service operations to the online space. Branches are thus becoming mainly a place for advice. The Bank responded to this trend in 2022, when it increased the number of advice branches from 38 to 65. Clients can make cash transactions in self-service zones, where Slovenská sporiteľňa has already provided 183 ATMs with a deposit function. The number of cash deposits made using self-service facilities grew by 51%, with the volume of deposits growing more, by 54%.

>20 million

Instant payments

Dynamic developments in payments

From 1 February 2022, Slovenská sporiteľňa, together with two other Slovak banks, began to provide its clients with the possibility to send and receive instant payments. This innovation in the world of payments brings processing within a few seconds and is online 24/7, regardless of weekends and holidays.

Simple entering, high availability and usefulness with regard to fast processing and with an emphasis on constantly increasing security of payments processing – all this is what Slovenská sporiteľňa strives for in the payments system.

In 2022, Slovenská sporiteľňa also worked intensively on preparations for a major technological and functional change within the Target2 system, as well as changes brought by the Eurosystem in the framework of the T2/T2S consolidation project. As of March 2023, it has decided, as one of the first banks in the market, to switch from the current MT standard to the new MX standard in the field of cross-border payments processing. Interbank communication in the form of the ISO standard provides the possibility to transfer data in a structured and consistent form.

95%

of cash transactions were made by clients using self-service devices

Slovenská sporiteľňa stands by clients even in difficult times

Towards the end of the year, the Bank launched an inflation calculator for its clients, which helps visitors to our website calculate the impact of inflation on their financial behaviour. Everyone can thus calculate their "personal" inflation and find out where there is room to make savings.

After the Russian invasion of Ukraine, Slovenská sporiteľňa immediately responded and made a SPACE account available to war refugees for one year free of charge, along with other benefits related to ATM withdrawals and payments. It also placed several ATMs in the east of Slovakia to cover the demand for cash withdrawals by people arriving. For clients from Ukraine, George even learned Ukrainian, and an option was added to George giving clients the opportunity to make a financial donation to a selected appeal.

ERSTE PRIVATE BANKING

Erste Private Banking, as part of the largest bank in Slovakia, has the long-term ambition to be the private banking leader in the Slovak banking market. Among the key topics for the future are digitalisation, sustainability, and intergenerational wealth transfer.

Erste Private Banking (EPB) aims to provide a comprehensive service to clients with an emphasis on discretion and quality of service, to continue to digitalise services and to improve the client relationship management system.

Two major journals, The Banker and PWM awarded EPB the title "Best Private Banking in Slovakia 2022". This is the first time in its history that EPB received an award from The Banker journal. A panel composed of leading experts evaluated applications from more than 120 private banks from 50 countries. Performance was benchmarked against indicators in the areas of portfolio management, asset allocation, risk management, diversification, growth strategies, customer service, sustainable and socially beneficial investing, business models, succession planning, philanthropic services, employee retention, banker education and training, business continuity measures in response to a crisis, and, last but not least, innovation.

The turbulent year 2022 brought inevitable changes

EPB clients, under the influence of the sudden and substantial changes during 2022, changed their usual behaviour in many ways. Due to the slump in the financial markets, the dynamics of investment decreased. ETF strategies instead of investing in mutual funds became more prominent. At the same time, high inflation and the subsequent increase in rates was also reflected in an expectation of higher rates on deposit products. After several years, clients again showed interest in term deposits and, to a greater extent, in bonds. EPB even offered its clients inflation bonds with an underlying HICP index (Harmonized Index of Consumer Prices).

1.1 billion

Assets under the management of Erste Private Banking

Digitalisation also dominates private banking

At the end of 2022, Erste Private Banking managed assets totalling almost EUR 1.1 billion for almost 1600 clients. More than 50% of EPB's portfolio consists of client investments. The year 2022 was also very successful in terms of growth in the number of new clients, thanks to the possibility of complete client onboarding via George.

Digital channels are increasingly sought by EPB clients. An answer is to expand the range of equities and ETFs traded via George, whereby at the end of 2022 there were almost 1000 titles on offer. Clients have the opportunity to invest online in euros or US dollars. Online communication between private bankers and clients is already a matter of course, to which EPB also adds expert webinars on current topics.

CORPORATE BANKING CONTINUES TO GROW

Financial health is a priority for Slovenská sporiteľňa also in corporate banking. It is therefore implementing innovative digital solutions to make it easier to access financial services from anywhere at any time.

Despite the difficult economic situation, lending to firms did not grind to a halt in 2022. Quite the opposite. The volume of loans in the market increased at a brisk pace, which Slovenská sporiteľňa managed to surpass with year-on-year non-financial corporations portfolio growth almost 19%. This could also be seen in the Bank's market share of loans to non-financial companies, which rose above the 20% mark for the first time.

Leasing and factoring also saw dynamic growth. Leasing receivables increased by 23% year on year as the Bank financed a variety of assets ranging from railway transport equipment through cars and vans to technology. Factoring continued to build its stock of financed receivables at a rapid pace, where after the 59% increase in 2021 the Bank posted a 18% rise in 2022.

After years of extremely low interest rates, the rise in 2022 led to an immediate inflow of deposits from non-financial corporate clients. Corporate deposits grew by nearly EUR 562 million (+26%).

€803 million

growth of the corporate portfolio in 2022 (non-financial corporation, net)

Innovation and digitalisation

The specific requirements of corporate banking clients and problems of scaling make it a difficult area in which to implement banking innovations or digitalisation. Despite these challenges, Slovenská sporiteľňa launched several new online solutions for firms in 2022, reaffirming its role as a leader in digitalisation. The new services allow firms to open a business account online and take out an overdraft, instalment loan, or a combination thereof, without setting foot in a branch. The business e-shop they can also find leasing and insurance.

The Bank continued its integration of Data Science into corporate banking. The number of pre-approved limits was more than doubled thanks to improvements in the approval model.

Responsible financing

Building financial health is at the heart of the Bank's interest. It emphasises transparency in evaluating firms' creditworthiness and has therefore launched a unique app, the Financial Health Index, which shows clients their rating and selected financial indicators. Clients also the opportunity to benchmark themselves against competitors. The app provides tips for maintaining or improving performance.

Slovenská sporiteľňa aims to go beyond providing advice to its partners on responsible financing by providing financing for solutions that reduce energy consumption in manufacturing or buildings, reduce firms' carbon footprint and promote electric vehicle use or environmentally friendly agriculture. A notable example was financing for railway transport technology that helps to reduce carbon dioxide emissions from transport. This financing also contributed towards Erste winning the Global Finance award for: Outstanding Leadership in Sustainable Infrastructure Finance – Regional Award Central & Eastern Europe.

The Bank continued in providing financial assistance for clients in bridging over and mitigating adverse external factors. In the first half of 2022, clients continued to receive funds from guarantee programmes mitigating the effects of the pandemic, which were gradually replaced by a more general anti-crisis guarantee.

Seed Starter – a unique programme

The Seed Starter programme helps firms through their initial phase to reach long-term sustainable growth. Besides financing, it offers assistance, inspiration and education. For the Bank, it is an opportunity to find projects with beneficial synergies. An example is its cooperation with the start-up PalmApp, whose app for firms to provide advance payments tailored to the individual requirements of employees offers new opportunities for the Bank's clients.

Higher trading income in the financial institutions segment

Despite the downturn in securities markets, revenues from the financial institutions segment were the highest in over five years. Trading income exceeded expectations as a result of increased volatility both on equities markets and in currency pairs. After several years of minimal interest income, this once again became a not negligible part of overall income in the financial institutions segment. Compared to the previous year, income from securities management services and depository services was higher but the growth rate was slower. The change in interest rates also had a negative effect on the activity of investors in the primary market and the volumes of debt security placements.

Management Report on Bank´s Activities in 2022

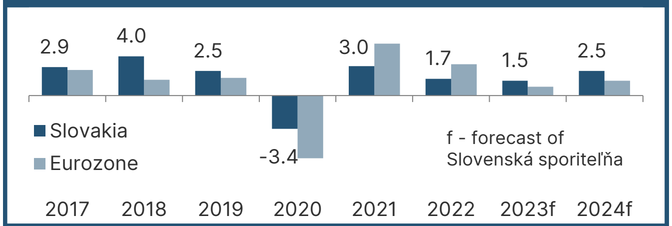
(based on the consolidated financial statements)

THE ECONOMY IN 2022

The economic words of the year were undoubtedly “energy“ and “inflation“.

Economic growth remained in green numbers

The unprecedented military invasion of the territory of another sovereign state in modern European history shook both society and economic indicators. Disrupted supply chains and missing components affected the country’s industrial and export performance. On the other hand, even in an environment of high inflation, household consumption managed to stay on a growth trajectory, thanks in particular to savings built up during the pandemic. GDP growth thus remained in the green in all four quarters, whereby the economy grew by 1.7% in 2022 against a year earlier. This is, however, just roughly half the figure originally forecast before the military invasion.



Economic growth in Slovakia and the euro area (%)

Unemployment continued to fall

The unemployment rate rose by about 1.5 percentage points during the pandemic to just above 7%. This figure, though, had already begun to decline during the pandemic and the trend continued throughout 2021 and 2022. Consequently, unemployment ended last year at approximately 6%, only a few tenths of a percentage point above the pre-pandemic low. This was helped by the gradual lifting of restrictions, which revived activity in services in particular, but also by government compensation schemes enabling firms to maintain employment. The environment of noticeable price growth naturally also brought demands from employees for wage growth, which accelerated especially in the second half of the year to almost 10% year-on-year in nominal terms. On a year-round basis, nominal wages rose by more than 8%, though with a noticeable decrease in purchasing power, as they failed to keep pace with more rapid inflation.

Historic level of inflation

The disruption of supply chains, great uncertainty in markets, heavy dependence on Russian energy supplies, and the severing of economic ties between the West and the Russian Federation brought a massive supply-side inflationary impulse. The most significant categories pushing up inflation over the past year were food prices, reflecting the importance of Russia and Ukraine in food supply chains, as well as energy prices. Nevertheless, thanks to price regulation, they accounted for only part of the market price growth. Inflation was thus driven mainly indirectly through firms’ costs. Although supply-side problems gradually eased towards the end of the year and commodity market prices fell significantly from their peaks, uncertainty and price volatility associated with energy remains high. The average inflation rate in 2022 was 12.8%, the highest since the early 1990s.

Impacts depend on economic structure

The energy crisis and geopolitical tension have of course also affected other European countries. While the detrimental effects of the coronavirus pandemic were felt primarily by economies oriented towards services or tourism (e.g. Spain, Croatia), industrially oriented countries are the most vulnerable in the current crisis. Nevertheless, the global slowdown in growth and decline in purchasing power is affecting every country. Economic growth in Germany, our main trading partner and Europe’s industrial leader, last year reached 2% year-on-year. Average growth in the eurozone amounting to 3.5% was driven mainly by Spain, Italy, and Austria.

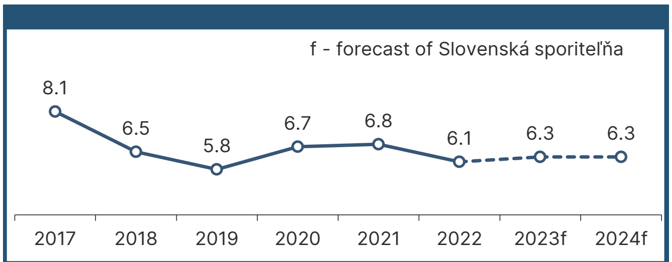
The ECB tightened monetary policy

Maintaining price stability is the basic goal of the European Central Bank (ECB); the sharp increase in inflation thus brought an end to extremely loose monetary policy. In just seven months of last year, rates rose by 250 basis points, bringing the key rate to 2.5% at the end of 2022. The ECB also adjusted other monetary policy tools – ending new net asset purchases, changing the interest rate on required reserves, adjusting the terms of targeted long-term refinancing operations (TLTRO) and announced a plan to reduce its portfolio of purchased securities from as early as March 2023. At the same time, the central bank’s estimates show that it does not forecast a return to the monetary target even by 2024.

The central bank has thus gradually withdrawn from the bond market, which, together with rising inflation and a deterioration in the economic outlook, has caused a significant rise in Slovak government bond yields.

Inflation will push down the public debt ratio

The need to respond to the crisis in our neighbouring country has brought new spending for humanitarian and defence purposes. Added to this was the need to compensate households and businesses for high energy prices. We estimate that last year’s general government deficit reached approximately 4%. However, the largest expenditure related to the energy crisis is projected for 2023 (almost EUR 3.5 billion), with the total deficit then reaching perhaps 5.5% of GDP. Public debt is expected to reach 60.5% GDP in 2022, with further decline to just below 60% in 2023. This, however, is due to higher inflation and the associated rapid growth of nominal GDP.



Unemployment rate in Slovakia (%)

2023: a year of security

The key challenge in 2023 will be to secure sufficient energy at an affordable price for the coming winter season and to find a strategic long-term solution. This factor is to a large extent decisive for Europe’s future economic development. However, despite the difficult situation, Slovakia has a chance of avoiding a technical recession thanks to the large volume of EU funds that should be invested this year. These include old and new EU funds, as well as the Recovery Plan. Economic growth could thus reach 1.5% year-on-year, with a slight increase in unemployment and brisk nominal wage growth. This is unlikely to be sufficient to keep pace with inflation though, which means people's purchasing power will decline somewhat.

FINANCIAL RESULTS

Loans continued to grow relatively briskly in 2022

Slovenská sporiteľňa's total assets grew against a year earlier by just under 3% (+EUR 0.6 billion). The slower growth compared to the previous year was due to a significant decline in deposits at the central bank. This came in response to a change in the terms of the European Central Bank's targeted long-term refinancing operations (TLTRO), when the Bank repaid EUR 1.75 billion of the total volume of EUR 2.75 billion.

€23.7 billion

Value of Slovenská sporiteľňa´s total assets

Conversely, the volume of loans to customers grew significantly. Its net value increased by almost 13% over the course of 2022 to EUR 17.9 billion, which represents 76% of total assets. The share of loans in the balance sheet thus grew by approximately 7 percentage points. In terms of absolute change, loans to households contributed most to credit growth (+EUR 1.1 billion), though loans to non-financial institutions also showed substantial growth (+EUR 800 mil., i.e. 19%). Slovenská sporiteľňa thus maintained its position as a leader in retail banking with a market share of 24.5% and, for loans to non-financial institutions, it confirmed the growth trend of its market share, to reach a 20.4% share at the end of 2022.

The volume of debt securities carried at amortised cost increased by 6% against the previous year to EUR 4.2 billion. The main factors included the purchase of government bonds and bank bonds.

Deposit growth slowed somewhat

Year-on-year growth in client deposits slowed slightly and fell below 6% in 2022. Their volume at the end of the year was still higher year-on-year by more than EUR 940 million. The year-end balance thus reached EUR 16.9 billion. Slovenská sporiteľňa, with its market share of 27.9%, remains clearly the largest bank in the retail deposits market. Although these deposits fell by 2% against last year (-EUR 305 million), corporate deposits managed to compensate for this, growing by approximately EUR 907 million. The reason for such sharp growth was the change in conditions associated with rising interest rates on the market. The ratio of net loans to clients to client deposits at the close of 2022 was 106%, which is an increase from last year's 99.5%.

Deposits from banks were significantly lower than in the preceding year, due to the termination of part of the long-term refinancing operations (TLTROs) with the ECB. At the end of 2022, the Bank recorded the received funds as a liability from TLTRO in the amount of EUR 1 billion. This has also contributed to the need to issue a larger amount of debt securities, with their value increasing significantly against a year earlier (+54%). The Bank's equity increased by EUR 130 million year-on-year to EUR 2.2 billion. The Bank meets all capital indicator limits set by the regulator.

Operating result up 11% year-on-year

Following a decrease in the previous year, Slovenská sporiteľňa's net interest income rose by EUR 16 million compared to 2021 to reach EUR 444 million (+4%). The situation on the market has changed significantly due to the tightening of the ECB's monetary policy. Net interest income was still positively impacted by interest income on interest-bearing liabilities with negative interest rates (TLTROs), which amounted to EUR 10.7 million in 2022.

Net fee and commission income increased significantly by almost EUR 18 million (+10.3%). Fee and commission income from payment transactions made a significant positive contribution, while there was also a sizeable contribution from insurance and investment brokerage. The year-on-year increase in net trading income was primarily due to the revaluation of derivatives held for trading.

General operating costs grew at a slower pace year on year (+5%) than operating revenues (+8%) and reached EUR 307 million. Personnel costs and other operating costs contributed to the growth in roughly the same measure, while depreciation increased at a more moderate pace year on year.

In the final total, the operating profit was EUR 35 million higher year-on-year (+11%). The ratio of operating costs to operating income (CIR) naturally improved on the previous year, decreasing by 1.4 percentage points to 46.3%.

The net profit increased despite higher provisioning

Net impairment loss on financial instruments amounted to EUR 32 million in 2022. As the special circumstances created by the pandemic gradually normalised, the Bank could ease up its provisioning. The year-on-year comparison is thus partly distorted. In the long-term perspective, 2022 was still below average.

€243 million

Consolidated net profit for 2022

The Bank's consolidated net profit in 2022 reached EUR 243 million, representing a year-on-year growth of more than 6% (+EUR 15 million). The improvement was driven by rising interest and fee income, while expenses – both operational and loan-provisioning – grew at a relatively modest pace. Return on equity in 2022 was 11.7%, compared to 12.2% in 2021.

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.

19.3%

overall capital adequacy in 2022

Capital adequacy slightly decreased

The Bank's consolidated capital adequacy went from 20.5% at the end of 2021 to 19.3%. The capital adequacy ratio fell mainly due to significant growth in the credit portfolio in the first half of the year. The effect of the increase in risk-weighted assets was partly mitigated by growth in the Bank's own funds.

The main contribution to the increase in own funds was coming mainly from an increase in retained earnings from 2021. The most significant deductible was year-on-year provisioning to cover the Bank's credit risk; this provisioning amounted to EUR 32m in 2022. During the reporting period, the Bank prudently created reserves to cover risk in the industries most at risk.

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 of Slovenská sporiteľňa.

Slightly deterioration in the liquidity situation

The unusually high inflation rate, the increased uncertainty generated by the outbreak of war in Ukraine and the overall negative mood in the economy contributed to a slight weakening of the Bank's liquidity situation. The growth of household deposits slowed, which increased the spread between loans provided and deposits received. The rise in yield curves reduced the value of the liquidity cushion provided by bonds. This deterioration was reflected in the liquidity indicators, which were lower than in the previous year but still sufficiently above statutory and internal limits. The Bank fulfils all relevant statutory and internal requirements. The Liquidity Coverage Ratio (LCR) averaged 160% over the year (the minimum value reached was 145% at the end of March), well above the statutory limit of 100%. The Net Stable Funding Ratio (NSFR) stood at around 130% during the year, the statutory limit in this case being 100%. The Bank holds a liquidity cushion of approximately EUR 4.3 billion in highly liquid assets (mainly accounts at the central bank and Slovak government bonds), and meets all internal requirements for the survival period in the event of critical situations (Survival Period Analysis).

The share of non-performing loans[3] continued to fall

Despite the deteriorating economic conditions in 2022, the share of non-performing loans at Slovenská sporiteľňa fell again from 1.8% in 2021 to 1.6% in 2022. Both retail loans and corporate loans contributed positively to this.

In corporate loans, the main factors contributing to this decrease were the restructuring and gradual repayment of non-performing exposures and stable growth in the standard corporate loans segment. Other factors that helped to reduce problem loans included prevention through a system to detect early warning signals, timely measures to tackle identified problems, the return of exposures to a standard rating after recovery and efficient management of receivables.

1.6%

Share of non-performing loans in 2022 (1.8% v 2021)

Although the current economic downturn has not yet led to an increase in non-performing loans, the Bank continues to monitor impacts of the downturn so that it can provide timely support to its clients, report risk in a prudent manner and mitigate the effect on credit risk.

Thanks to the efficient process for dealing with difficult life situations (besides statutory payment deferrals) which the Bank developed during the COVID-19 pandemic, the Bank can manage an increase in applicants without pressure on staffing capacities. For extremely difficult life situations, the Bank has a proven approach through its Social Bank division.

Impact of legislative and regulatory changes

There was no new legislation significantly affecting the way in which the Bank managed credit risk in 2022.

FORECAST ECONOMIC AND FINANCIAL SITUATION

Balance sheet set to continue growing

Slovenská sporiteľňa forecasts almost 8% year-on-year growth in the overall balance sheet total in 2023 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 net loan-to-deposit ratio will not exceed 110%, with the growth compared to 2022 being due to slower growth in client deposits than in client loans. Balance sheet growth will be affected by the TLTRO volumes and the need to comply with MREL requirements.

[3] The Bank follows the definition of the European Banking Authority (EBA) in reporting non-performing loans (NPLs).

Appropriate measures make it reasonable to expect that the Bank will satisfy regulatory requirements for indicators and parameters under the CRR (Capital Requirements Regulation) and CRD (Capital Requirements Directives).

Profitability will remain robust in 2023

Slovenská sporiteľňa expects that profits to the end of 2023 will be higher than the previous year mainly due to rising interest rates and growth in fee and commission income. Net interest income will be boosted by higher interest rates and the volume of client loans. Growth in client loans will, however, mean higher MREL requirements, which negatively impact net interest income. Strong competition continues to put pressure on interest income. Another factor supporting profitability is fee and commission income. 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. Slovenská sporiteľňa expects an increase in operating costs in 2023, mainly due to investment in IT projects and a rise in basic pay in response to labour market developments. Investments in digitalisation and more efficient branch network management are increasing the optimisation of the Bank's processes. The effectiveness of cost management at Slovenská sporiteľňa is underlined by the development of the cost income ratio, which is forecast at close to 47% in 2023.

Main risks

The main risks and uncertainties facing Slovenská sporiteľňa arise from the tense situation in the region and the related economic difficulties. On the global and Slovak national level, the health of the economy is at risk from disruption in worldwide supply chains, price rises due to high inflation and pressure on energy prices caused by geopolitical problems. Other sources of risk include changes to banking legislation in Slovakia and the European Union including the imposition of stricter balance sheet requirements, and the deterioration of liquidity in the Slovak market as a result of household and company debts rising faster than their savings.

OBJECTIVES FOR 2023

Slovenská sporiteľňa aims to keep up its support for its clients' financial health in 2023. It wants to be a long-term partner and financial advisor for households and firms, helping them to realise their plans and increase their resilience to risk. The Bank will continue to provide investment, insurance and pension savings products from its partners alongside its own services. Slovenská sporiteľňa wants to provide an outstanding client experience in both the range and quality of its financial services. These activities should lead to more people making more active use of the Bank's services. 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 for households and companies. 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 wants to focus on providing comprehensive financial advice. At the same time, it has a strategy for digitalisation and the optimisation of internal processes to provide improved services for clients, long-term cost reductions and faster development in future. 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.

Corporate Governance Report

CODE OF CORPORATE GOVERNANCE

The management of Slovenská sporiteľňa recognises the importance of sound and responsible corporate governance. The principles of corporate governance are implemented in compliance with the directives and guidelines of the European banking authorities and the local regulator Národná banka Slovenska as they apply to banking institutions. The most relevant document for internal management and corporate governance is EBA/GL/2021/05 Guidelines on internal governance, as amended, which defines measures, procedures and mechanisms for selected financial institutions. Slovenská sporiteľňa a.s. has implemented the Group Governance Policy of the Austrian banking group, Erste Group, of which it is a member. 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. The Code of Corporate Governance is a self-regulation tool consisting of recommendations and proposals for transparent and exemplary corporate governance. The primary aim of this voluntary code of conduct is to increase transparency in the management and control mechanisms of listed companies and thereby increase the confidence of investors and the public in governing tiers of the economy. Slovenská sporiteľňa is a member of the Slovak Association of Corporate Governance (SACG) and has undertaken to voluntarily observe the Code of Corporate Governance issued by that association (hereinafter 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. In the case of Slovenská sporiteľňa, the application of the principles and rules of the Governance Code is influenced in some measure by the fact that it 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.

Over the course of 2022, 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 employees 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 of the Council on markets in financial instruments (MiFID II) for strengthening consumer protection in accordance with European legislation. Before providing an investment service, the Bank provides clients with a Key Information Document (KID) and a notice on investment services involving certain financial instruments (securities, derivatives) to provide greater transparency on these investment products and permit their comparison with other products of the same kind. All KIDs are available on the Bank's website (www.slsp.sk/kids).

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 important in relation to customers, the company, employees and the shareholder and sets the standard for the Bank's conduct as a socially responsible company acting in all aspects of its activities responsibly, with respect and without undue risk. It is an important instrument of quality assurance in internal and in 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 protecting the interests of clients 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 one of the Bank's highest priorities. Every member of the Bank's management at every level, and every Bank employee, bears responsibility for compliance with competition rules. A specific member of the Bank's Board of Directors 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, social and governance impacts 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 the abolition of 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 promotion etc.

As Slovenská sporiteľňa meets the definition of a subsidiary that is covered by the consolidated report of the Erste Group, the non-financial indicators under Directive 2014/95/EU of the European Parliament and of the Council (the NFRD directive) are published by its parent company. The Bank's obligations under Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (the SFDR regulation) have been met by publication of 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 AG, 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 (the "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. These activities, in accordance with the Act on Banks, are not entered in the Commercial Register. The latest changes to the Articles were approved by the shareholder at the General Meeting on 19/08/2021. The changes to the Articles reflected legal provisions in the area of liability for protection against money laundering and protection against terrorist financing. No changes were made to the Articles in 2022.

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 2022 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 divisions must not engage, and during 2022 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 SYSTEM

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 operational 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. The internal control system is closely connected with operational risk management, particularly in the area of risk identification and risk control phases. Its implementation is required by the risk management strategy and has the following objectives at Slovenská sporiteľna:

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 the implementation, regular monitoring, evaluation and appropriate updating of the policy for an efficient internal control system. Each organisational unit is responsible for its 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 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, Bank information system 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 oversees the independence and objectivity of the Internal Audit division, regularly monitors and controls its activity and efficiency, compliance with international internal audit standards and the Internal Audit Policy of the Erste Group. It also approves the Internal Audit Policy, the internal audit statute contained therein and its annual review.

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 division 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 has adopted and published on its website a Concept of Protection against Money Laundering and Terrorist Financing, in which it commits to "zero tolerance" for the infiltration of "dirty" money into the financial system, money laundering and terrorist financing, in particular by emphasizing the application of the "know your client" principle. In keeping with its ethical values, the Bank also 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 the legal environment of the Slovak Republic, Erste Group principles, and international standards. For proper management of operational risk in this area, the Bank also provides its employees with the opportunity to report corrupt or antisocial behaviour, violations of accepted banking rules or principles (whistleblowing) at any time, even anonymously, via the intranet.

In its organisational structure, the Bank has set up a unit for the prevention and detection of money laundering, which is managed by a person designated by law. The designated person develops and regularly updates the Bank's comprehensive protection concept, including internal rules, control mechanisms, updates of the signs of unusualness, the criteria for assessment as well as the procedure for reporting.

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.

At the same time, the Bank is responding to the dynamic changes in the field of new technologies and investments in information systems, taking into account the related risk from the growing importance of the secure functionality of these systems, by adequately managing the risk of ICT (information and communication technologies) with regard to upcoming legislative amendments, as well as identified risks. The risk framework and ICT risk management also fall under the responsibility of the Compliance and Operational Risk Management division, and the Security division provides full cooperation.

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 division is responsible for security in the Bank. The rising level of digitalisation leads to an increase in potential threats in cyberspace. Therefore, the Bank is continuing its long-term investments in the prevention, detection and reaction to security incidents in order to prevent their occurrence and minimise the potential impact. At the same time, regulatory authorities are also responding to increased threats by introducing stricter legal obligations that banks must reflect in their security policies. Their compliance, conformity to ISO/IEC 27002 standard and verification of the security of the Bank's information system are subject to audit by several regulatory authorities as well as the Bank's internal audit. In 2022, Slovenská sporiteľňa again successfully underwent such an audit in accordance with the requirements of Act no. 69/2018 Coll. on cybersecurity and Methodological Guideline of Národná banka Slovenska no. 7/2004.

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 and 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 and management controlling. 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 to the Bank's staff via internal information channels.

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 these risks to be managed effectively. 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 various material risk types (credit, market, operational and liquidity risks, etc.). In accordance with statutory and regulatory provisions and requirements, 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 group 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. In 2022, the methodologies of selected indicators and measures for the risk scenarios of the Recovery Plan were updated in accordance with legislation and the regulator's recommendations.

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

The rules for the appointment and recall 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 performance of the Supervisory Board's supervisory function, the election and recall 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, as well as in accordance with recommendations of the Nomination Committee of the Supervisory Board. The appointment and recall of members of the Supervisory Board, other than representatives elected and recalled by the employees, lies in the competence of the company's General Meeting and is subject to the prior opinion of 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 EBA/GL/2021/06 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 Act on Banks. 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 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 C-level management) should be held by women and this share should rise to 40% by 2025. As at 31/12/2022 this share was 27%. The diversity indicator for gender balance in the Board of Directors and management positions is one of the evaluated performance indicator 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 required consistency of the appointment criteria for individual members of the Board of Directors with their actual assessment, the Nomination Committee of the Supervisory Board did not propose the Supervisory Board and the sole shareholder of Slovenská sporiteľňa any measures leading to changes in the composition, structure and size of the Supervisory Board and the Board of Directors, or its individual members, from the suitability policy perspective, for the year 2022. Following a review of the principles for the selection and appointment of top and senior management (including persons holding key functions), the Nomination Committee of the Supervisory Board 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. 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 2022, the Bank had one ordinary General Meeting, and two extraordinary General Meetings were held in the form of a sole shareholder decision. At the ordinary General Meeting held on 22 March 2022, the shareholder approved the annual individual and consolidated financial statements, the profit distribution as well as the company's annual report for 2021, and at the same time approved PricewaterhouseCoopers Slovensko, s.r.o. as the external auditor for verifying the financial statements of Slovenská sporiteľňa for 2022. Both General Meetings held in the form of a sole shareholder decision (on 1 February 2022 and 1 August 2022) concerned the election of a member of the Supervisory Board.

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 Board may not be deputised. The Supervisory Board oversees the exercise of the powers of 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 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 risk management, the report on the remuneration system, submits its 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 and recall 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

Supervisory Board of Slovenská sporiteľňa has six members. Pursuant to the Articles, the term of office of members of the Board of Directors is five years. In 2022, the Supervisory Board acted in the following composition:

Supervisory Board member	Year of birth	Professio n	Date of first election	End of term
David O´Mahony (chairman)	1965	Member of first election	2. 2. 2022	2.2.2027
Jan Homan (vice-chairman)	1947	CEO	4. 5. 2012	8.8.2027
Paul Formanko (1)	1965	Bank analyst	4. 2. 2019	4. 2. 2024
Vazil Hudák (1)	1964	Company director and financial consultant	11. 11. 2020	11. 11. 2025
Alena Adamcová (2)	1967	Bank advisor	2. 11. 2016	2. 2. 2027
Juraj Futák (2)	1976	Trade union officer	2. 2. 2022	2. 2. 2027

[1] *independent member of the Supervisory Board*
[2] *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 and analyses recommendations made by external and internal auditors. It monitors and verifies the independence of the statutory auditor or audit firm in accordance with legal requirements, approves the appropriateness of the provision of non-audit services in accordance with the applicable EU regulation and the services provided by the statutory auditor or audit firm. Based on a proposal by the Board of Directors, it recommends an external auditor for the company to the General Meeting. In accordance with the committee's statute, its competence also extends to the performance of activities and responsibilities for SLSP Social Finance, s.r.o. – a subsidiary of Slovenská sporiteľňa.

Credit Committee

The committee is an advisory body to the company's Supervisory Board in the performance of its duties relating to the company's credit activities and credit policy. Its competence includes approval of certain types of credit transactions specified in the company's Competence Rules, subject to limits approved by the company's Supervisory Board, as well as the granting of prior approval for arm's-length lending, the transfer or letting of the Company's assets or the provision of security for an obligation to a member of the Supervisory Board, the Board of Directors, or persons close to them or acting on their account.

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/2021/06). It oversees and controls the candidate selection process, assesses and reassesses their suitability in terms of their 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/2021/05). 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 meetings of the Supervisory Board committees are held usually 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/2021/05) 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 2022

In 2022, the Supervisory Board met four times and made three decisions by circular resolution (per rollam). 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 2021, and proposed to the Bank's General Meeting the distribution of profit for 2021. 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 2023 as well as the annual internal audit activity plan to 2026.

During the course of the year, the Audit Committee of the Supervisory Board met four times in its ordinary meetings. The resolution and recommendation concerning the auditor's report on the results of the statutory audit and the financial statements of SLSP Social Finance, s.r.o. for the year 2021 were adopted by circular resolution (per rollam). 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 2021, which it recommended for approval by the General Meeting, it approved the plan of and interim reports on the external statutory audit of 2022. In 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 2022. 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 four ordinary meetings and two meetings by circular resolution (per rollam), 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 and those who are subject to special remuneration principles due to this status under the Act on Banks.

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. In 2022, the committee considered two nominations for the position of member of the Board of Directors and one nominee for the Supervisory Board prior to their candidacy being approved by the European Central Bank.

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 of Directors also serves as the CEO; the Vice-chairman of the Board of Directors 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, on its organisational structure, remuneration system and staff competences at each organisational level, 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 2022, the Board of Directors worked in the following composition:

Member of the Board of Directors	Year of birth	Date of first election	End of term
Peter Krutil (Chairman)	1968	17. 12. 1998	4. 1. 2026
Juraj Barta	1979	8.6.2022	8.6.2027
Pavel Cetkovský	1969	26. 1. 2018	26. 1. 2028
Milan Hain	1962	1. 7. 2018	1. 7. 2023
Norbert Hovančák	1975	1. 10. 2019	1. 10. 2024

No vice-chairman of the Board of Directors was appointed in 2022.

Division of competences and responsibilities of members of the Board of Directors

Member of the Board of Directors	Area of competence as per organisational structure
Peter Krutil (Chairman)	Strategic Change Management, Strategy and Customer Experience, Brand HUB, Human Resources, Balance Sheet Management.
Pavel Cetkovský	Accounting and Controlling, Properties and Facility Management, Compliance and Operational Risk Management, Strategic Risk Management, Corporate Credit Risk Management, Retail Credit Risk Management, Legal Services. The appointee is the person responsible for the risk management function at Slovenská sporiteľňa, the person responsible for the environment, the sustainability agenda and is the member of the Board of Directors responsible for the anti-money laundering agenda.
Juraj Barta (from 8. June 2022)	Client Prosperity, Daily and Digital Banking, Client Needs, Branch Network Management, Social bank. He is the person responsible for the area of financial intermediation.
Norbert Hovančák	Treasury and Investments, Large Corporate Clients and Structured Finance, Real Estate, Corporate Clients, Financial Solutions and Business Client Prosperity, Segment and Performance of Corporates Management.
Milan Hain	Security, Shared IT Services, Data management, IT Operations, Banking Services, Retail Processing Centre.

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 2022, the Bank had the following committees:

Assets and Liabilities Management 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 Assets and Liabilities Management Committee 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, allocation of campaign costs and evaluation of their effectiveness. It also considers issues relating to digitalisation of the Bank and electronic sales channels.

Operational Risk and 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 Section 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 management.

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 management of 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.

Ad Hoc Disclosure Commission

The committee assesses possible confidential information from the legal and factual points of view, decides on any obligations related to the ad hoc disclosure of such information as well as on the division of responsibilities in communication with the relevant supervisory authorities. In the event of a need for ad hoc publication or in the event of its postponement, committee members are required to agree on the wording of the disclosure.

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 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 divisions, 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 2022, 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:

Member of the Board of Directors	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
Juraj Barta	Member of the Supervisory Board of KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group, member of the Supervisory Board of Asset Management Slovenskej sporiteľne, správ. spol., a.s.
Pavel Cetkovský	Vice-chairman of the Deposit Protection Fund Council, managing director of Procurement Services SK, s.r.o., chairman of the Supervisory Board of 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	Member of the Supervisory Board of Monilogi s.r.o., 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 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 material 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 commission-based 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 Act on Banks, 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 EUR 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. If the annual variable component of the total remuneration is less than EUR 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.

Implementation of remuneration principles according to the approved methodology is subject to annual review by the Internal Audit division of Slovenská sporiteľňa. The Internal Audit review for 2021 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 Regulation (EU) No 575/2013 of the European Parliament and of the Council, 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;
- information on the performance criteria on which entitlement to shares, options or variable components of remuneration is based;
- the main parameters and rationale for any variable component scheme and any other non-cash benefits;
- the number of individuals being remunerated EUR 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 of the European Parliament and of the Council;
- use of the derogation provided for in Article 94(3) of Directive 2013/36/EU.

Activities of the Board of Directors in 2022

In 2022, the Board of Directors met 45 times. Three decisions were taken in the form of a circular resolution (per rollam). 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 development 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 policies and strategic programmes focused on change management. Matrix-managed units with elements of agile management were implemented in the Bank's organisational structure. Changes in the legislative environment, regulatory requirements as well as changes in 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. The Board of Directors, within the scope of its duties and competences, applied decisions in accordance with ECB and EBA regulations and guidelines in the areas of remuneration, dividend policy, risk and capital management. In 2022, the crisis team that had coordinated all the Bank's activities related to the pandemic situation caused by the SARS-CoV-2 virus and the protection against its spread in the branches and the head office building was phased out. 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. In connection with the military conflict in Ukraine, the Board of Directors also adopted measures in 2022 in light of the evolving geopolitical situation, taking into account the protection and assistance needs of displaced residents and refugees from the conflict zone. In its decisions, the Board of Directors worked from market information and analyses in line with current and expected economic developments in the Slovak economy and its financial and banking sectors, taking into account the Bank's adopted strategic objectives and the evolution of liquidity, capital and risk positions.

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 EUR 212 000 000. It is divided into 212 000 registered book-entry shares. The par value of one share is EUR 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 2022, 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 2022, 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 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 recall members of the Supervisory Board, other than members elected by employees. The Bank provides regular information to the shareholder in annual, semi-annual 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 the year 2022, Slovenská sporiteľňa does not record any operating expenses related to research activities and did not receive any state subsidies.

List of entities included in the consolidated financial statements prepared as at 31 December 2022 (subsidiaries and associated companies in which the Bank holds a stake exceeding 20% of share capital):

- 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.)
- SLSP Seed Starter, s.r.o., registered office Tomášikova 48, 831 04 Bratislava, ID no.: 54 736 196
- Procurement Services SK, s.r.o., registered office Tomášikova 48, 832 75 Bratislava, ID no.: 36 721 972
- Monilogi s.r.o., registered office Mlynské nivy 1, 821 08 Bratislava, IČO: 54 508 673
- 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

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 by issuing regular reports and 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.

Supervisory Board Report

The Supervisory Board of Slovenská sporiteľňa, in performing its activities over the course of 2022, 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 2022, four ordinary meetings of the Supervisory Board were held, and three decisions were adopted by circular resolution (per rollam). 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. Together with its strategic outlook, the Bank approved planning documents for 2023 as well as the internal audit activity plan to 2026.

Following the opinion of the European Central Bank and in accordance with Article 8, point 12 of the company's Articles of Association, the Supervisory Board appointed Juraj Barta to the position of member of the Board of Directors with his term commencing on 8 June 2022. It also nominated Jan Homan, a member of the Supervisory Board, for re-election to this position. Subsequently, following confirmation of his candidacy by the European Central Bank, the Bank's General Meeting appointed Jan Homan as member and vice-chairman of the Supervisory Board. During 2022, the Supervisory Board welcomed the new members Juraj Futák and Alena Adamcová, who were elected by the Bank's employees.

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.

In 2022, 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/2021/05 on internal governance.

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. In 2022, it reviewed one business case, which concerned the granting of a loan to a person with a special relationship with the Bank.

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 members of the Board of Directors 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 2022 the Committee held four ordinary meetings, with two meetings held by circular resolution (per rollam).

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/2021/06) 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 2022, 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 Board of Directors.

During 2022 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 2022 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 2022. 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 2022 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 2022, as presented, including the proposal for distribution of the Bank's profit for 2022.

David O´Mahony
Chairman of the Supervisory Board

Statemant 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 2022, together with a description of the key risks and uncertainties it faces in connection with its business activities.

No events of special significance have occurred after the end of the accounting period for which this Annual Report is prepared.

Annexes

Consolidated financial statements

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2022

(Translated version, original version in Slovak)

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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. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2022, 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 27 February 2023.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended 31 December 2022;
- the consolidated statement of comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of changes in equity for the year ended 31 December 2022;
- the consolidated statement of cash flows for the year ended 31 December 2022; 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.

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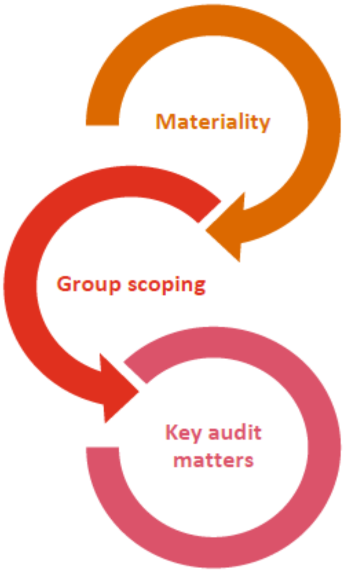
The firm's ID No.: 35 739 347. The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.
IČO Spoločnosti je 35 739 347. Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank, to its parent or to its subsidiaries within the European Union 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.

The non-audit services that we have provided to the Group, in the period from 1 January 2022 to 31 December 2022, are disclosed in Note 38 to the consolidated financial statements.

Our audit approach

Overview



Overall Group materiality: EUR 13.56 million, which represents approximately 5% of the average of the last three-year consolidated profits before income tax and levy on banking activities.

We focused our audit work on the Bank which is the most material consolidated reporting unit. The Bank as a standalone reporting unit represents over 99% of the Group's total assets as at 31 December 2022 and over 99% 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.

Overall Group materiality	EUR 13.56 million
How we determined it	We determined Group materiality as approximately 5% of the average of the last three-year consolidated profits 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 years 2022, 2021 and 2020. Levy on banking activities was added to profit before income tax because of the similar nature as income tax. The recent economic development resulting from COVID-19 pandemic and the current macroeconomic situation, including high inflation, led to volatility in the Group's profit before tax. The average of the three-year consolidated profits 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 the Note 13, Note 14 and Note Leases to the consolidated financial statements, management estimated total credit loss allowances for loans and advances to customers, finance lease receivables and trade and other receivables at EUR 352 million.	We assessed and tested design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans. We tested design and operating effectiveness of IT general controls, including access to programs and data, program changes and computer operations related to quantification of credit loss allowances.

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Key audit matter	How our audit addressed the key audit matter
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 individual or collective credit loss allowances are not appropriately identified and estimated. The estimates required for measuring credit loss allowances are 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 2022, the estimate of credit loss allowances was significantly influenced by the current macroeconomic situation influenced by the Russia/Ukraine conflict which resulted in energy crisis, high inflation and decrease in economic activity. 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.	We verified that models used for accurate quantification of credit loss allowances are in line with the requirements of IFRS 9. A sample of loan exposures was examined in order to test accuracy of credit loss allowances calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows, by comparing them to historical performance of the customer and expected future performance and we assessed external and internal valuations of the underlying collateral and comparing them to values used by management in the expected credit loss quantification. On a sample basis, we assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Group to estimate collective credit loss allowances for loans that share similar credit risk characteristics. The underlying models and expert judgement applied by Group in response to the current geopolitical situation (including high energy prices, decrease in economic activity) were assessed by our specialists dealing with financial risk management and modelling. They assessed the design and application of the models for compliance with the relevant reporting standards, including introduction of additional criteria used for identification of significant increase in credit risk, including stage overlays and shifts in risk parameters due to the current macroeconomic situation. 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 have 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. The Bank as a standalone reporting unit represents over 99% of the Group's total assets as at 31 December 2022 and over 99% of the Group's net result for the year then ended. We focused our audit work on the Bank which is the most material consolidated reporting unit. Except for the Bank we did not identify other significant reporting units where full-scope audit procedures were required.

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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.

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 six years. Our appointment for the year ended 31 December 2022 was approved by the shareholder's resolution on 22 March 2022.

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 2022 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 2022 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 consolidated financial statements with the requirements of the ESEF Regulation.

After management provides us with the electronic XHTML format of the 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 regard.

The statutory auditor on the audit resulting in this independent auditor's report is Ing. Eva Hupková, FCCA.

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PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Ing. Eva Hupková, FCCA
SKAU licence No. 672

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28 February 2023, except for *Reporting on other information including the Annual Report* section of our report, for which the date of our report is 28 March 2023.

Bratislava, Slovak Republic

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CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 December 2022

EUR ths.	Notes	2021	2022
Net interest income	2	427,879	443,946
Interest income		421,311	469,495
Other similar income		39,478	24,541
Interest expenses		(18,206)	(40,244)
Other similar expenses		(14,704)	(9,846)
Net fee and commission income	3	174,277	192,203
Fee and commission income		194,582	214,328
Fee and commission expenses		(20,305)	(22,125)
Dividend income	4	602	588
Net trading result	5	9,794	23,636
Gains/losses from financial instruments measured at fair value through profit or loss	6	(767)	2,267
Net result from equity method investments		1,607	623
Rental income from investment properties & other operating leases	7	294	357
Personnel expenses	8	(155,194)	(161,858)
Other administrative expenses	8	(103,843)	(110,682)
Depreciation and amortisation	8	(33,354)	(34,594)
Gains/losses from derecognition of financial assets measured at amortised cost		1	2
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss		(2,643)	(452)
Impairment result from financial instruments	9	(1,099)	(32,114)
Other operating result	10	(15,529)	(11,425)
Levies on banking activities		(4,665)	(5,894)
Pre-tax result from continuing operations		**302,025**	**312,497**
Taxes on income	11	(73,971)	(69,703)
Net result for the period		**228,054**	**242,794**
Net result attributable to non-controlling interests		**(48)**	**(94)**
Net result attributable to owners of the parent		**228,102**	**242,888**

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 34 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.

		2021	2022
Net result attributable to owners of the parent	EUR ths.	228,102	242,888
Number of outstanding shares	pcs.	212,000	212,000
Basic and diluted earnings per share	**EUR**	**1,076**	**1,146**

The notes on pages 61 to 176 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

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

EUR ths.	2021	2022
Net result for the period	**228,054**	**242,794**
Other comprehensive income		
Items that may not be reclassified to profit or loss	**(67)**	**831**
Remeasurement of defined benefit plans	(74)	1,006
Fair value reserve of equity instruments	(11)	46
Deferred taxes relating to items that may not be reclassified	18	(221)
Items that may be reclassified to profit or loss	**789**	**292**
Currency reserve	789	292
Gains/losses during the period	789	292
Total other comprehensive income	**722**	**1,123**

Total comprehensive income	**228,776**	**243,917**
Total comprehensive income attributable to non-controlling interests	**(48)**	**(94)**
Total comprehensive income attributable to owners of the parent	**228,824**	**244,011**

The notes on pages 61 to 176 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

EUR ths.	Notes	31.12.2021	31.12.2022
Assets			
Cash and cash balances	12	2,907,420	1,254,543
Financial assets held for trading	16	47,874	77,139
Derivatives		47,874	77,139
Non-trading financial assets at fair value through profit or loss	17	15,068	17,206
Equity instruments		7,155	9,694
Debt securities		7,913	7,512
Financial assets at amortised cost	13	19,496,688	21,644,120
Pledged as collateral		4,323,689	3,914,418
Debt securities		3,911,658	4,154,899
Loans and advances to banks		49,983	26
Loans and advances to customers		15,535,047	17,489,195
Finance lease receivables	Leases	233,435	284,500
Hedge accounting derivatives	19	16,454	16,879
Property and equipment, right-of-use assets	28	145,557	146,058
Investment properties	28	1,518	1,453
Intangible assets	29	18,947	17,868
Investments in associates and joint ventures	35,36	37,427	33,720
Current tax assets	11	-	115
Deferred tax assets	11	69,107	71,493
Trade and other receivables	14	129,088	155,573
Other assets	30	35,692	25,555
Total assets		**23,154,275**	**23,746,222**
Liabilities and Equity			
Financial liabilities held for trading	16	46,131	73,533
Derivatives		46,131	73,533
Financial liabilities at amortised cost	15	20,849,566	21,189,679
Deposits from banks		2,893,347	1,173,628
Deposits from customers		15,972,763	16,912,755
Debt securities issued		1,946,930	2,989,506
Other financial liabilities		36,526	113,790
Lease liabilities		20,051	21,197
Hedge accounting derivatives	19	31,844	103,266
Provisions	32	43,213	38,972
Current tax liabilities	11	2,222	7,392
Other liabilities	31	110,711	131,902
Equity		2,050,537	2,180,281
Equity attributable to non-controlling interests		1,918	1,806
Equity attributable to owners of the parent	34	2,048,619	2,178,475
Subscribed capital		212,000	212,000
Additional equity instruments		380,000	380,000
Retained earnings and other reserves		1,456,619	1,586,475
Total liabilities and equity		**23,154,275**	**23,746,222**

The notes on pages 61 to 176 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

		Retained earnings and other funds									
EUR ths.	Subscribed capital	Legal reserve fund	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 01.01.2022	**212,000**	**79,795**	**39,104**	**1,338,886**	**(11)**	**595**	**(1,750)**	**380,000**	**2,048,619**	**1,918**	**2,050,537**
Dividends paid / Distribution for Investment certificate	-	-	-	(114,205)	-	-	-	-	**(114,205)**	(18)	**(114,223)**
Other changes	-	-	-	50	-	-	-	-	**50**	-	**50**
Total comprehensive income	-	-	-	242,888	35	292	796	-	**244,011**	(94)	**243,917**
Net result for the period	-	-	-	242,888	-	-	-	-	**242,888**	(94)	**242,794**
Other comprehensive income	-	-	-	-	35	292	796	-	**1,123**	-	**1,123**
Change from remeasurement of defined benefit pension liabilities	-	-	-	-	-	-	796	-	**796**	-	**796**
Change in fair value reserve	-	-	-	-	35	-	-	-	**35**	-	**35**
Change in currency reserve	-	-	-	-	-	292	-	-	**292**	-	**292**
As of 31.12.2022	**212,000**	**79,795**	**39,104**	**1,467,619**	**24**	**887**	**(954)**	**380,000**	**2,178,475**	**1,806**	**2,180,281**

As at 31 December 2022 the impact of deferred tax included in ´Fair value reserve´ amounts EUR 0.0 million (2021: EUR 0.0 million) and the impact of deferred tax included in ´Remeasurement of defined benefit pension liabilities´ amounts EUR 0.0 million (2021: EUR 0.0 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 01.01.2021	**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
Capital decreases	-	-	-	-	-	-	-	-	**-**	**-**	-
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**

For more details on the transaction of AT1 certificate issue included in the line item ´Capital increases/ decreases´ please refer to note 34.

The notes on pages 61 to 176 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

EUR ths.		2021	2022
Net result for the period	**Notes**	**228,054**	**242,794**
Non-cash adjustments for items in net profit/loss for the year			
Net allocation of credit loss allowances and other provisions	10	1,067	31,773
Depreciation, amortisation, impairment and reversal of impairment of assets	28,29	31,810	31,776
Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	6	2,172	(950)
Accrued interest, amortisation of discount and premium	2	34,517	46,641
Fair value adjust - hedging	19	(17,974)	(116,201)
Other adjustments		7,488	217
Cash flows from operations before changes in operating assets and liabilities			
Financial assets held for trading	16	12,120	(29,265)
Non-trading financial assets at fair value through profit or loss	17		
Equity instruments		504	(1,117)
Debt securities		(173)	401
Financial assets at amortised cost	13		
Debt securities		(250,137)	(285,718)
Loans and advances to banks		(50,044)	49,847
Loans and advances to customers		(989,175)	(1,991,903)
Finance lease receivables	Leases	7,577	(51,065)
Hedge accounting derivatives	19	17,891	(425)
Trade and other receivables	14	(47,314)	(26,485)
Other assets from operating activities	30,11	(13,963)	10,234
Financial liabilities held for trading	16	(10,393)	27,402
Financial liabilities measured at amortised cost	15		
Deposits from banks		1,183,092	(1,719,719)
Deposits from customers		1,104,834	937,608
Other financial liabilities		14,021	77,264
Hedge accounting derivatives	19	(16,529)	71,422
Provisions	32	11,353	(3,107)
Other liabilities from operating activities	31,11	9,748	26,362
Cash flow from operating activities		**1,270,546**	**(2,672,214)**
Dividends received from associates and other investments	4	562	1,141
Purchase of share in associates and joint ventures	35,36	(9,655)	(1,157)
Purchase of intangible assets, property and equipment	28,29	(21,154)	(24,761)
Proceeds from sale of intangible assets, property and equipment	28,29	796	2,267
Cash flow from investing activities		**(29,451)**	**(22,510)**
Dividends paid	34	(53,926)	(114,205)
AT1 certificate - issue	34	80,000	-
Repayment of subordinated debt	34	(10,000)	(20,000)
Issue of the bonds	34	232,417	1,436,855
Repayment of the bonds	34	(295,591)	(253,511)
Capital increase in associates	35,36	2,000	-
Lease liabilities	34	(6,735)	(7,427)
Cash flow from financing activities		**(51,835)**	**1,041,712**
Cash and cash equivalents at beginning of the year	12	**1,717,486**	**2,907,420**
Cash flows from operating activities		1,270,546	(2,672,214)
Cash flow from investing activities		(29,451)	(22,510)
Cash flow from financing activities		(51,835)	1,041,712
Effect of foreign exchange rate changes on cash and cash equivalents		674	135
Cash and cash equivalents at end of period	12	**2,907,420**	**1,254,543**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)		**360,231**	**414,337**
Payments for taxes on income	11	(84,042)	(67,175)
Interest paid	2	(32,941)	(42,497)
Interest received	2	476,652	522,868
Dividends received	4	562	1,141

Cash and cash equivalents are equal to the amount in the statement of financial position line item 'Cash and cash balances'. Further information related to net debt reconciliation are provided in note 15. For more details on the new structure of Consolidated statement of cash flows please refer to note 40.

The notes on pages 61 to 176 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

The group of Slovenská sporiteľňa, a.s. (hereinafter referred to as 'the Group') consists of the parent company Slovenská sporiteľňa, a.s., (hereinafter referred to as 'the Bank') with its registered office at Tomášikova 48, 832 37 Bratislava, Slovak Republic and subsidiaries. The Bank was incorporated as a joint stock company 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.

The Bank's sole shareholder is Erste Group Bank AG, which has its registered office at Am Belvedere 1, 1100 Vienna, and which is the ultimate 100% parent company of the Bank. Information on the shareholding structure of the ultimate parent company is disclosed in the 2022 financial statements of Erste Group Bank AG or up-to-date information is available on its homepage.

The Board of Directors of the Bank had five members as at 31 December 2022:

Ing. Peter Krutil (chairman), Ing. Pavel Cetkovský (member), RNDr. Milan Hain, PhD. (member), Mgr. Ing. Norbert Hovančák (member) and Mgr. Juraj Barta, CFA (member).

The chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. Other members of the Board of Directors are the deputies of the Chief Executive Officer.

The Supervisory Board of the Bank had six members as at 31 December 2022:

David O´Mahony (chairman), Mag. Jan Homan (vice-chairman), Paul Formanko, MBA (member), JUDr. Vazil Hudák (member), Mgr. Alena Adamcová (member) and Juraj Futák (member).

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 (the Group) that are disclosed in note 35.

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 (27 February 2023) and the annual general meeting (29 March 2023).

Significant accounting policies

a) Basis of preparation

The consolidated financial statements of the Group for the financial year ending on 31 December 2022 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, etc.) are set out in respective parts of these statements.

These consolidated financial statements have been prepared on the basis that the Group will be able to continue as a going concern for the foreseeable future.

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. 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) Accounting and measurement methods

Foreign currency translation

The consolidated 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. 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 Group 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.

c) 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 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 24 Credit risk)

In 2022 the war in Ukraine, the energy crisis, inflation and interest rates developments brought additional factors of uncertainties for Group's financial performance and position. In 2021 such additional uncertainties resulted from the Covid-19 pandemic. The potential effects include significant impacts on expected credit losses, on operating income as well as impacts of potential non-financial assets impairment assessments. Group follows the developments closely and recognises the effects in the financial statements as a reasonable information supporting their recognition is available.

Details about effects of these factors on the expected credit losses estimation are described in Note 24 Credit risk.

The market capitalisation of Group at year-end 2022 was below the carrying amount of the net assets. Therefore, a thorough analysis was performed to ensure the recoverability of the non-financial assets. In the course of this analysis the group has estimated the value in use on the level of the cash-generating units (CGUs). The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information. The cash flow projection period is five years. Beyond this planning horizon the cash flows are extrapolated to perpetuity based on a terminal growth rate. For those CGUs for which the carrying amount was higher than the value in use, the fair values of the underlying non-financial assets were derived and compared with the respective book values. In addition to the amounts already recognised in the course of the financial statement preparation process (see Note 28 Property, equipment and investment properties, Note 29 Intangible assets and Note 36 Investments in associates and joint ventures), the analysis did not reveal any need for impairment.

d) 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 2022. 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 2022 and have been endorsed by the EU:

- Annual Improvements to IFRSs 2018-2020 Cycle (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41).

Application of the above-mentioned amendments in 2022 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. All of them are endorsed by the EU:

- IFRS 17: Insurance contracts
- 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

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. Application of IFRS 17 is not expected to have a significant impact on Group's financial statements.

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 2022.

The Group - business segments			
Retail	Corporates	Asset Liability Management (ALM), Local Corporate Center (LCC) and Free Capital (FCAP)	Group Markets

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 190 branches (status as at 31 December 2022).

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.	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Net interest income	259,564	276,697	92,081	100,817	784	5,648	75,450	60,784	427,879	443,946
Net fee and commission income	141,399	156,137	24,056	26,833	14,259	15,262	(5,437)	(6,029)	174,277	192,203
Dividend income	-	-	-	-	-	-	602	588	602	588
Net trading result	4,309	5,407	3,808	8,724	2,416	5,495	(739)	4,010	9,794	23,636
Gains/losses from financial instruments at FVPL	-	-	-	-	-	-	(767)	2,267	(767)	2,267
Net result from equity method investments	(1)	623	-	-	-	-	1,608	-	1,607	623
Rental income from investment properties & other operating leases	-	-	-	-	-	-	294	357	294	357
General administrative expenses	(250,690)	(260,928)	(37,722)	(41,497)	(4,801)	(5,118)	822	409	(292,391)	(307,134)
Gains/losses from derecognition of financial assets at AC	-	-	-	-	-	-	1	2	1	2
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	(2,643)	(452)	(2,643)	(452)
Impairment result from financial instruments	(12,259)	(19,716)	11,515	(11,578)	17	17	(372)	(837)	(1,099)	(32,114)
Other operating result	(849)	(1,008)	(1,420)	(2,259)	(656)	(271)	(12,604)	(7,887)	(15,529)	(11,425)
Levies on banking activities	(846)	(1,008)	(1,119)	(1,087)	(656)	(272)	(2,044)	(3,527)	(4,665)	(5,894)
Pre-tax result from continuing operations	**141,473**	**157,212**	**92,318**	**81,040**	**12,019**	**21,033**	**56,215**	**53,212**	**302,025**	**312,497**
Taxes on income	(29,710)	(32,884)	(19,387)	(17,018)	(2,524)	(4,417)	(22,350)	(15,384)	(73,971)	(69,703)
Net result for the period	**111,763**	**124,328**	**72,931**	**64,022**	**9,495**	**16,616**	**33,865**	**37,828**	**228,054**	**242,794**
Net result attributable to non-controlling interests	-	-	-	-	-	-	(48)	(94)	(48)	(94)
Net result attributable to owners of the parent	**111,763**	**124,328**	**72,931**	**64,022**	**9,495**	**16,616**	**33,913**	**37,922**	**228,102**	**242,888**
Operating income	405,272	438,864	119,945	136,374	17,460	26,405	71,009	61,977	613,686	663,620
Operating expenses	(250,690)	(260,928)	(37,722)	(41,497)	(4,801)	(5,118)	822	409	(292,391)	(307,134)
Operating result	**154,582**	**177,936**	**82,223**	**94,877**	**12,659**	**21,287**	**71,831**	**62,386**	**321,295**	**356,486**
Risk-weighted assets (credit risk, eop)*	3,693,551	3,926,089	4,134,638	4,620,677	4,740	2,553	258,803	363,382	8,091,732	8,912,701
Average allocated capital**	462,059	531,362	453,948	499,524	5,218	6,902	360,628	442,652	1,281,853	1,480,440
Cost/income ratio	61.86%	59.46%	31.45%	30.43%	27.50%	19.38%	-1.16%	-0.66%	47.65%	46.28%
Return on allocated capital	24.19%	23.40%	16.07%	12.82%	181.97%	240.75%	9.40%	8.55%	17.89%	16.41%
Total assets (eop)	11,447,922	12,570,897	4,577,766	5,456,918	76,465	82,591	7,052,122	5,635,816	23,154,275	23,746,222
Total liabilities excluding equity (eop)	14,021,082	13,729,223	1,683,274	2,302,624	348,205	718,039	5,051,177	4,816,055	21,103,738	21,565,941
Impairments	**(12,260)**	**(19,717)**	**11,515**	**(11,578)**	**17**	**17**	**(371)**	**(836)**	**(1,099)**	**(32,114)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(12,153)	(19,577)	19,847	(15,432)	17	17	(374)	(837)	7,337	(35,829)
Net impairment loss on commitments and guarantees given	(107)	(140)	(8,332)	3,854	-	-	3	1	(8,436)	3,715

* 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.	2021	2022
Financial assets at AC	421,311	469,495
Demand deposits	4	7,539
Loans and advances	332,841	371,588
Debt securities	88,466	90,368
Interest income	**421,311**	**469,495**
Non-trading financial assets at FVPL	6	24
Financial assets HfT	14,959	14,582
Hedge accounting derivatives, interest rate risk	(8,290)	(5,982)
Other assets	4,992	5,254
Negative interest from financial liabilities	27,811	10,663
Other similar income	**39,478**	**24,541**
Interest and other similar income	**460,789**	**494,036**
Financial liabilities at AC	(18,206)	(40,244)
Deposits	(4,813)	(15,936)
Debt securities in issue	(13,393)	(24,308)
Interest expenses	**(18,206)**	**(40,244)**
Financial liabilities HfT	(12,869)	(12,635)
Hedge accounting derivatives, interest rate risk	7,163	7,506
Other liabilities	68	(114)
Negative Interest from financial assets	(9,066)	(4,603)
Other similar expenses	**(14,704)**	**(9,846)**
Interest and other similar expenses	**(32,910)**	**(50,090)**
Net interest income	**427,879**	**443,946**

An amount of EUR 6.8 million (2021: EUR 6.4 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 income from hedging instruments relates to the hedged items presented in the line item ‘Financial assets at AC’. Interest expense from hedging instruments relates to the hedged items presented in the line item ‘Financial liabilities at AC’.

In 2022 the interest expense on financial liabilities at AC includes catch-up loss from Targeted Long Term Refinancing Operation (TLTRO III) in the amount of EUR 6.6 million. In 2021 the negative interest expense from financial liabilities at AC was in the amount EUR 27.8 million, including the catch up adjustment from TLTRO III - gain EUR 12.9 million. For more details refer to Note 15 Financial liabilities at amortised costs.

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.

Fee and commission income is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers a promised 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, premiums received for financial guarantees 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 and building society brokerage. Services provided over a period of time also include certain payment services 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. Transaction based services also include certain payment services 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. For example, loan servicing fees agreed in a loan contract that are not integral to the effective interest rate of a financial instrument are included in the net fee and commission income.

EUR ths.	2021		2022	
	Income	Expenses	Income	Expenses
Securities	4,147	(840)	6,596	(1,819)
Issues	127	-	88	-
Transfer orders	991	(521)	1,574	(1,637)
Other	3,029	(319)	4,934	(182)
Custody	3,202	(1,840)	3,968	(2,075)
Collective investment	810	-	82	-
Other	2,392	(1,840)	3,886	(2,075)
Payment services	107,395	(10,385)	114,967	(9,688)
Card business	43,343	(6,858)	54,499	(6,408)
Other	64,052	(3,527)	60,468	(3,280)
Customer resources distributed but not managed	59,034	(91)	64,492	(251)
Collective investment	20,367	-	21,798	-
Insurance products (as agent)	38,643	(91)	42,669	(251)
Other	24	-	25	-
Lending Business	20,221	(5,078)	23,280	(5,253)
Guarantees given, guarantees received	4,619	(12)	5,456	(10)
Loan commitments given, loan commitments received	4,101	-	3,747	-
Other lending business	11,501	(5,066)	14,077	(5,243)
Other	583	(2,075)	1,037	(3,039)
IC consolidation differences	-	4	(12)	-
Total fee and commission income and expenses	**194,582**	**(20,305)**	**214,328**	**(22,125)**
Net fee and commission income	**174,277**		**192,203**	

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 13,179.7 million (2021: EUR 13,762.4 million).

4. DIVIDEND INCOME

EUR ths.	2021	2022
Non-trading financial assets at fair value through profit or loss	587	588
Financial assets at fair value through other comprehensive income	15	-
Dividend income	**602**	**588**

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 18 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.	2021	2022
Securities trading	1,662	4,570
Derivatives trading	8,190	18,136
Result from hedge accounting	(58)	930
Net trading result	**9,794**	**23,636**

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.	2021	2022
Result from measurement/sale of financial assets designated at FVPL	-	61
Result from financial assets and liabilities designated at FVPL	**-**	**61**
Result from measurement/sale of financial assets mandatorily at FVPL	(767)	2,206
Gains/losses from financial instruments measured at fair value through profit or loss	**(767)**	**2,267**

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.	2021	2022
Investment properties	262	316
Other operating leases	32	41
Rental income from investment properties & other operating leases	**294**	**357**

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.

Information about remuneration of management including performance-linked remuneration can be found in Note 37 Related-party transactions and principal shareholders.

As at 31 December 2022 the Group had 3.585 employees, thereof five members of the Board of Directors. As at 31 December 2021 the Group had 3,644 employees, thereof four members of the Board of Directors.

WeShare program

The WeShare-Participation program and the WeShare-Investment Plus program are equity-settled share-based payment transactions. Both programs are offered to employees of the Group.

Under the WeShare-Investment Plus program all employees, who had been employed by an entity of the Group, from May 2022 until September 2022 could voluntarily invest in Erste Group shares and receive free shares depending on the amount of their personal investment. The WeShare-Investment Plus program was settled in September 2022. The number of free shares, which were granted under this program for the period, is 41,873. Personnel expenses in the amount of EUR 1.1 million were recorded.

Under the WeShare-Participation program all employees, who have been employed by an entity of the Group for at least six months in year 2021 and have active employment status in September 2022 are entitled to receive shares in an equivalent amount of EUR 350. The expected number of free shares, which are granted under this program for the period, is 43,564 (2021: 31,401). Based on the number of entitled employees, personnel expenses in the amount of EUR 0.5 million (2021: 2.3 million) were recorded and a corresponding reserve in retained earnings was created.

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 premises’ in total amount of EUR 0.7 million (2021: EUR 0.7 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 2022.

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.	2021	2022
Personnel expenses	**(155,194)**	**(161,858)**
Wages and salaries	(108,805)	(114,954)
Compulsory social security	(38,269)	(40,608)
Long-term employee provisions	(346)	518
Other personnel expenses	(7,774)	(6,814)
Other administrative expenses	**(103,843)**	**(110,682)**
Deposit insurance contribution	(9,426)	(9,858)
IT expenses	(48,167)	(50,467)
Expenses for office premises	(11,842)	(15,032)
Office operating and administrative expenses	(10,504)	(11,440)
Advertising/marketing	(14,541)	(14,719)
Legal and consulting costs	(3,135)	(4,893)
Sundry administrative expenses	(6,228)	(4,273)
Depreciation and amortisation	**(33,354)**	**(34,594)**
Software and other intangible assets	(7,448)	(7,697)
Owner occupied real estate	(17,076)	(17,692)
Investment properties	(206)	(214)
Office furniture and equipment and sundry property and equipment	(8,624)	(8,991)
General administrative expenses	**(292,391)**	**(307,134)**

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 are disclosed in note 8.

EUR ths.	2021	2022
Financial assets at AC	6,875	(36,849)
Net allocation to credit loss allowances	10,314	(35,544)
Direct write-offs	(3,969)	(1,809)
Recoveries recorded directly to the income statement	530	504
Finance lease receivables	462	1,020
Net allocation to credit loss allowances	460	971
Direct write-offs	(10)	(4)
Recoveries recorded directly to the income statement	12	53
Credit loss allowances for loan commitments and financial guarantees given	(8,436)	3,715
Impairment result from financial instruments	**(1,099)**	**(32,114)**

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.	2021	2022
Net movements from notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**39,789**	**(6,953)**
Financial assets at amortised cost	49,605	(12,521)
Finance lease receivables	472	1,695
Trade and other receivables	(1,852)	158
Commitments and financial guarantees given	(8,436)	3,715
Items not recognized through income statement - use	**48,493**	**33,871**
Financial assets at amortised cost	48,038	33,076
Finance lease receivables	-	795
Trade and other receivables	455	-
Commitments and financial guarantees given	-	-
Items recognized through income statement – net allocations and releases	**(8,704)**	**(40,824)**
Financial assets at amortised cost	1,567	(45,597)
Finance lease receivables	472	900
Trade and other receivables	(2,307)	158
Commitments and financial guarantees given	(8,436)	3,715
Impairment result from financial instruments	**(1,099)**	**(32,114)**
Items reconciled to movements in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**(8,704)**	**(40,824)**
Net allocation of loss allowances	(268)	(44,539)
Net allocation of loss allowances for commitments and guarantees given	(8,436)	3,715
Items not recognized as movement in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**7,605**	**8,710**
Unwinding correction	11,041	9,966
Direct write-offs	(3,979)	(1,813)
Recoveries recorded directly to the income statement	543	557

10. OTHER OPERATING RESULT

The other operating result reflects all other income and expenses not directly attributable to the Group's ordinary activities.

It includes expenses for allocations to and income from release of provisions in scope of IAS 37. Further, impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets are presented as other operating result. Any impairment losses on goodwill are also included in this line item.

In addition, the other operating result encompasses the following: resolution fund contributions, expenses for other taxes as well as 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.	2021	2022
Other operating expenses	**(37,045)**	**(39,450)**
Allocation to other provisions	(21,736)	(20,834)
Levies on banking activities	(4,665)	(5,894)
Recovery and resolution fund contributions	(4,665)	(5,894)
Other taxes	(199)	(197)
Impairment of associates	(3,895)	(5,866)
Other	(6,550)	(6,659)
Other operating income	**21,516**	**28,025**
Release of other provisions	17,342	19,057
Result from properties/movables/other intangible assets other than goodwill	1,800	3,205
Result from other operating expenses/income	2,374	5,763
Other operating result	**(15,529)**	**(11,425)**

Operating expenses (including repair and maintenance) for investment properties held for rental income totalled to EUR 0.0 million (2021: 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 5.9 million (2021: EUR 4.7 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.

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.

The Group has not recorded a deferred tax liability in respect of temporary differences associated with investments in associates and joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Accounting judgements, assumptions and estimates

The determination of tax bases is 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.	2021	2022
Current tax expense / income	(66,082)	(72,300)
current period	(66,082)	(72,300)
Deferred tax expense / income	(7,889)	2,597
current period	(7,889)	2,597
Total	**(73,971)**	**(69,703)**

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.	2021	2022
Pre-tax result from continuing operations	302,025	312,497
Statutory tax rate	21%	21%
Income tax expense for the financial year at the Slovak statutory tax rate (21%)	63,425	65,624
Impact of tax-exempt earnings of investments and other tax-exempt income	(1,334)	(901)
thereof - Permanently tax-exempt (income) from dividends	(112)	(110)
thereof - Permanently tax-exempt (income) from revaluation of asset	(621)	(636)
thereof - Transaction from participation	-	(131)
thereof - Other	(601)	(24)
Tax increases due to non-deductible expenses, additional business tax and similar elements	11,912	5,302
thereof - Permanently non-deductible expenses with fines, penalties, litigations and similar topics	12	6
thereof - Permanent differences coming from financial assets	8,057	1,773
thereof - Permanent differences coming from other asset	1,124	658
thereof - Transaction from participation	33	-
thereof - Other	2,686	2,865
Tax expenses / earnings not attributable to the reporting period	(32)	(322)
Total	**73,971**	**69,703**

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

	2021			2022		
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	(11)	3	(9)	46	(10)	37
Remeasurement of defined benefit plans	(74)	15	(58)	1,006	(211)	794
Currency reserve	789	-	789	292	-	292
Other comprehensive income	**704**	**18**	**722**	**1,344**	**(221)**	**1,123**

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	Other	Total
EUR ths.	31.12.2021	31.12.2022	31.12.2021	31.12.2022	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	52,129	55,526	-	-	(3,397)	-	-	**(3,397)**
Property, equipment and investment properties	1,227	1,470	(576)	(220)	(599)	-	-	**(599)**
RoU Assets	17	99	-	-	(83)	-	-	**(83)**
Liabilities								-
Long-term employee provisions (tax valuation different)	1,591	1,175	-	-	205	221	-	**426**
Other provisions (tax valuation different)	5,560	5,045	-	-	515	-	-	**515**
Other liabilities	8,860	8,308	-	-	552	-	-	**552**
Total deferred tax	**69,472**	**71,711**	**(576)**	**(220)**	**(2,807)**	**221**	**-**	**(2,586)**
Tax loss carried forward	631	-	-	-	211	-	-	**631**
Total deferred taxes	**69,107**	**71,493**	**-**	**-**	**(2,597)**	**221**	**-**	**(2,376)**
Current taxes	**-**	**115**	**(2,222)**	**(7,392)**	**72,300**	**-**	**-**	**72,300**
Total taxes	**69,107**	**71,608**	**(2,222)**	**(7,392)**	**69,703**	**221**	**-**	**69,924**

	Tax assets		Tax liabilities		Through PL	Through OCI	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**

The Group's consolidated deferred tax asset position in amount of EUR 71.5 million as of 31 December 2022 (2021: EUR 69.1 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 statement of financial position and measured in accordance with their assigned categories.

Accounting and measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods: at amortised cost and fair value.

a) 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.

b) 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

a) 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.

b) 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 24 Credit risk.

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.

Measurement of expected credit losses reflects cash flows expected from collateral and those financial guarantees held by Group which are considered as integral to the contractual terms of financial assets whose risk is guaranteed. Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the Group has in a loan contract an option to require provision of a guarantee, it is also considered as integral. 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 statement of financial position. 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 Group 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'.

For financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the statement of financial position 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'.

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

a) 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'.

b) 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.

c) 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. Derecognition would also result from a substantial modification of the terms of an existing financial liability or from exchanging debt instruments with substantially different terms between the Group and the lender. In this respect the substantially modified/substantially different threshold is met when the present value of the cash flows under the new terms discounted using the original EIR is at least 10% different to the carrying amount of the liability before the modification/exchange.

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

a) 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.

b) 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.

c) 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 24 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, Note 24 Credit risk, Note 33 Contingent liabilities.

d) Financial liabilities stemming from the TLTRO programme of the ECB

For details related to assessments of whether the TLTRO III liabilities contain government grants, how the effective interest rate is determined and changes in estimated cash flows based on expected fulfilment of eligibility conditions see Note 15 Financial liabilities at amortised cost.

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.

In the statement of financial position, 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 179.5 million (2021: EUR 2,484.0 million) at the reporting date. The mandatory minimum reserve requirement is calculated from defined statement of financial position 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.

EUR ths.	31.12.2021	31.12.2022
Cash on hand	413,763	339,594
Cash balances at central banks	2,483,999	899,436
Other demand deposits at credit institutions	9,658	15,513
Cash and cash balances	**2,907,420**	**1,254,543**

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

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 31.12.2022											
General governments	3,734,543	-	-	-	3,734,543	(539)	-	-	-	(539)	3,734,004
Credit institutions	296,446	-	-	-	296,446	(247)	-	-	-	(247)	296,199
Other financial corporations	514	25,316	-	-	25,830	(2)	(582)	-	-	(584)	25,246
Non-financial corporations	76,545	23,439	-	-	99,984	(62)	(472)	-	-	(534)	99,450
Total	**4,108,048**	**48,755**	**-**	**-**	**4,156,803**	**(850)**	**(1,054)**	**-**	**-**	**(1,904)**	**4,154,899**

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	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**

Movement in credit loss allowances

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	(762)	(109)	10	-	11	-	(850)
Stage 2	(474)	-	-	(524)	(55)	-	(1,054)
Stage 3	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-
Total	**(1,236)**	**(109)**	**10**	**(524)**	**(44)**	**-**	**(1,904)**

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

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 2022 or initial recognition date) to Stages 2 or 3 at 31 December 2022 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 2022 and not fully derecognized by 31 December 2022 amounts to EUR 377.5 million (2021: EUR 410.2 million). The gross carrying amounts of amortised cost debt securities that were held at 1 January 2022 and derecognized during the year 2022 amounts to EUR 76.1 million (2021: EUR 160.9 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 31.12.2022											
Credit institutions	24	2	-	-	26	-	-	-	-	-	26
Total	**24**	**2**	**-**	**-**	**26**	**-**	**-**	**-**	**-**	**-**	**26**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2022.

	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											
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.

Movement in credit loss allowances

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	(42)	-	-	-	42	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-
Total	**(42)**	**-**	**-**	**-**	**42**	**-**	**-**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2021
Stage 1	-	(76)	21	-	13	-	(42)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-
Total	**-**	**(76)**	**21**	**-**	**13**	**-**	**(42)**

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 2022 and not fully de-recognized by 31 December 2022 amounts to EUR 0.0 million (2021: EUR 50.0 million). The gross carrying amounts of amortised cost loans and advances to banks that were held as of 1 January 2022 and fully de-recognized during the year 2022 amounts to EUR 50.0 million (2021: 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 31.12.2022											
General governments	336,663	601	-	-	337,264	(524)	(19)	-	-	(543)	336,721
Other financial corporations	135,211	86,621	127	21	221,980	(240)	(842)	(91)	(1)	(1,174)	220,806
Non-financial corporations	2,997,109	1,672,489	67,864	94,960	4,832,422	(14,110)	(71,822)	(42,428)	(29,358)	(157,718)	4,674,704
Households	11,762,305	470,091	202,752	4,428	12,439,576	(27,756)	(36,573)	(116,176)	(2,107)	(182,612)	12,256,964
Total	**15,231,288**	**2,229,802**	**270,743**	**99,409**	**17,831,242**	**(42,630)**	**(109,256)**	**(158,695)**	**(31,466)**	**(342,047)**	**17,489,195**

The amounts represent the maximum exposure to credit risk. As at 31 December 2022 the Group had no reverse repo agreements. As at 31 December 2022, 15 largest customers accounted for 5.5% of the gross loan portfolio amounting to EUR 970.0 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 31.12.2021											
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**

As at 31 December 2021, 15 largest customers accounted for 5.3% of the gross loan portfolio amounting to EUR 819.0 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 31.12.2022											
Lending for house purchase	9,917,058	284,914	137,314	2,818	10,342,104	(18,579)	(19,242)	(66,071)	(1,114)	(105,006)	10,237,098
Credit for consumption	1,259,115	151,630	57,039	219	1,468,003	(8,038)	(14,493)	(42,702)	(84)	(65,317)	1,402,686
Corporate loans and others	4,055,115	1,793,258	76,390	96,372	6,021,135	(16,013)	(75,521)	(49,922)	(30,268)	(171,724)	5,849,411
Total	**15,231,288**	**2,229,802**	**270,743**	**99,409**	**17,831,242**	**(42,630)**	**(109,256)**	**(158,695)**	**(31,466)**	**(342,047)**	**17,489,195**

	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											
Loans and advances to customers	**13,589,160**	**1,925,705**	**278,608**	**71,724**	**15,865,197**	**(39,861)**	**(110,714)**	**(157,658)**	**(21,919)**	**(330,152)**	**15,535,045**
Lending for house purchase	8,895,446	325,032	138,977	1,921	9,361,376	(18,420)	(21,341)	(65,073)	(459)	(105,293)	9,256,083
Credit for consumption	1,213,054	147,615	61,328	178	1,422,175	(5,960)	(13,381)	(48,420)	(76)	(67,837)	1,354,338
Corporate loans and others	3,480,660	1,453,058	78,303	69,625	5,081,646	(15,481)	(75,992)	(44,165)	(21,384)	(157,022)	4,924,624
Total	**13,589,160**	**1,925,705**	**278,608**	**71,724**	**15,865,197**	**(39,861)**	**(110,714)**	**(157,658)**	**(21,919)**	**(330,152)**	**15,535,045**

Movement in credit loss allowances

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

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	(39,859)	(37,325)	1,013	22,362	11,006	173	(42,630)
General governments	(411)	(399)	-	41	245	-	(524)
Other financial corporations	(318)	(2,354)	-	851	1,581	-	(240)
Non-financial corporations	(13,821)	(25,550)	200	10,446	14,609	6	(14,110)
Households	(25,309)	(9,022)	813	11,024	(5,429)	167	(27,756)
Stage 2	(110,711)	(1,473)	418	(42,068)	44,137	441	(109,256)
General governments	(16)	-	-	(54)	51	-	(19)
Other financial corporations	(2,609)	-	-	(412)	2,179	-	(842)
Non-financial corporations	(70,895)	(1,132)	301	(27,161)	27,040	25	(71,822)
Households	(37,191)	(341)	117	(14,441)	14,867	416	(36,573)
Stage 3	(157,658)	(608)	16,572	(6,018)	(21,484)	10,501	(158,695)
Other financial corporations	(36)	-	8	(1)	(62)	-	(91)
Non-financial corporations	(36,292)	(566)	4,443	(980)	(10,033)	1,000	(42,428)
Households	(121,330)	(42)	12,121	(5,037)	(11,389)	9,501	(116,176)
POCI	(21,920)	-	215	-	(10,335)	574	(31,466)
Other financial corporations	(1)	-	-	-	-	-	(1)
Non-financial corporations	(20,169)	-	49	-	(9,313)	75	(29,358)
Households	(1,750)	-	166	-	(1,022)	499	(2,107)
Total	**(330,148)**	**(39,406)**	**18,218**	**(25,724)**	**23,324**	**11,689**	**(342,047)**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	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)**
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)**
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	**(380,487)**	**(35,544)**	**51,957**	**(7,766)**	**31,795**	**9,893**	**(330,152)**

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

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	31.12.2022
Stage 1	**(39,859)**	**(37,325)**	**1,013**	**22,362**	**11,006**	**173**	**-**	**(42,630)**
Lending for house purchase	(18,418)	(354)	472	8,661	(8,964)	24	-	(18,579)
Credit for consumption	(5,960)	(8,924)	154	1,764	4,804	124	-	(8,038)
Corporate loans and others	(15,481)	(28,047)	387	11,937	15,166	25	-	(16,013)
Stage 2	**(110,711)**	**(1,473)**	**418**	**(42,068)**	**44,137**	**441**	**-**	**(109,256)**
Lending for house purchase	(21,341)	(25)	53	(6,699)	8,769	1	-	(19,242)
Credit for consumption	(13,380)	(2)	48	(6,320)	4,945	216	-	(14,493)
Corporate loans and others	(75,990)	(1,446)	317	(29,049)	30,423	224	-	(75,521)
Stage 3	**(157,658)**	**(608)**	**16,572**	**(6,018)**	**(21,484)**	**10,501**	**-**	**(158,695)**
Lending for house purchase	(65,073)	-	3,426	(2,988)	(2,508)	1,072	-	(66,071)
Credit for consumption	(48,420)	(37)	10,463	(1,789)	(10,511)	7,592	-	(42,702)
Corporate loans and others	(44,165)	(571)	2,683	(1,241)	(8,465)	1,837	-	(49,922)
POCI	**(21,920)**	**-**	**215**	**-**	**(10,335)**	**574**	**-**	**(31,466)**
Lending for house purchase	(459)	-	12	-	(667)	-	-	(1,114)
Credit for consumption	(76)	-	-	-	(17)	9	-	(84)
Corporate loans and others	(21,385)	-	203	-	(9,651)	565	-	(30,268)
Total	**(330,148)**	**(39,406)**	**18,218**	**(25,724)**	**23,324**	**11,689**	**-**	**(342,047)**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (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)	-	-	-	(318)	-	-	(459)
Credit for consumption	(85)	-	2	-	(19)	26	-	(76)
Corporate loans and others	(57,127)	-	268	-	34,624	851	-	(21,384)
Total	**(380,487)**	**(35,544)**	**51,956**	**(7,766)**	**31,798**	**9,893**	**-**	**(330,150)**

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 amortised 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 2022 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2022 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 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 2022 to a different stage compared to 1 January 2022 (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	
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
As of 31.12.2022						
General governments	421	278	-	-	-	-
Other financial corporations	103,020	6,580	94	-	2	-
Non-financial corporations	923,843	497,209	22,654	1,022	9,857	879
Households	207,288	127,987	44,721	10,672	27,860	11,628
Total	**1,234,572**	**632,054**	**67,469**	**11,694**	**37,719**	**12,507**
As of 31.12.2021						
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**

Detailed information on stage transfers due to COVID-19 measures are described in Note 24 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 2022 amounts to EUR 6,279.1 million (2021: EUR 4,233.2 million). The gross carrying amount of the amortised cost loans and advances to customers that were held at 1 January 2022 and fully de-recognized during the reporting period amounts to EUR 2,544.6 million (2021: EUR 1,711.7 million).

Mandate loans

During the year 2022 the Group cooperated with 6 external companies (2021: 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 2022 the total amount of gross loans outsourced was EUR 76.6 million (2021: EUR 87.4 million). These loans were categorised in stage 3.

Write off and sale of receivables

During the year 2022 the Group sold loan receivables in the amount of EUR 41.3 million (2021: EUR 56.3 million) for a consideration of EUR 18.0 million (2021: EUR 15.0 million) and used the corresponding allowances amounting EUR 20.7 million (2021: EUR 38.1 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 2022 the Group has written off loans and finance lease receivables in the amount of EUR 12.3 million (2021: EUR 11.1 million) and used the respective allowances amounting EUR 11.3 million (2021: EUR 10.3 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 31.12.2022											
General governments	1,823	-	-	-	1,823	-	-	-	-	-	1,823
Credit institutions	4,582	-	-	-	4,582	-	-	-	-	-	4,582
Other financial corporations	2,222	-	-	-	2,222	(23)	-	-	-	(23)	2,199
Non-financial corporations	143,757	3,858	4,938	752	153,305	(604)	(956)	(4,379)	(468)	(6,407)	146,898
Households	71	-	-	-	71	-	-	-	-	-	71
Total	**152,455**	**3,858**	**4,938**	**752**	**162,003**	**(627)**	**(956)**	**(4,379)**	**(468)**	**(6,430)**	**155,573**

	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**

Movement in credit loss allowances

EUR ths.	01.01.2022	Additions	Derecognitions	Other changes in credit risk (net)	Transfers between stages	31.12.2022
Stage 1	**(1,838)**	**(685)**	**102**	**1,795**	**-**	**(626)**
General governments	(1)	-	-	1	-	-
Other financial corporations	(48)	(23)	-	48	-	(23)
Non-financial corporations	(1,789)	(662)	102	1,746	-	(603)
Stage 2	**(3)**	**-**	**-**	**(18)**	**(936)**	**(957)**
Non-financial corporations	(3)	-	-	(18)	(936)	(957)
Stage 3	**(4,747)**	**-**	**-**	**515**	**(147)**	**(4,379)**
Non-financial corporations	(4,747)	-	-	515	(147)	(4,379)
POCI	**-**	**-**	**-**	**(468)**	**-**	**(468)**
Non-financial corporations	-	-	-	(468)	-	(468)
Total	**(6,588)**	**(685)**	**102**	**1,824**	**(1,083)**	**(6,430)**

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.	01.01.2021	Additions	Other changes in credit risk (net)	Transfers between stages	Write offs	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)
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)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2021	2022
Transfers between Stage 1 and Stage 2	**1,158**	**3,141**
To Stage 2 from Stage 1	1,158	3,141
To Stage 1 from Stage 2	-	-
Transfers between Stage 2 and Stage 3	**121**	**220**
To Stage 3 from Stage 2	121	220
To Stage 2 from Stage 3	-	-
Transfers between Stage 1 and Stage 3	**749**	**623**
To Stage 3 from Stage 1	749	623
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.	31.12.2021	31.12.2022
Overnight deposits	3,827	4,411
Term deposits	2,889,520	1,169,217
Deposits from banks	**2,893,347**	**1,173,628**

Financial liabilities stemming from the TLTRO programme of the ECB are presented under ‘Term deposits´. The Group assessed an appropriate accounting treatment of the TLTRO. 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 organised by the ECB as part of its monetary policy. As a result, the IFRS 9 amortised cost accounting treatment applies.

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´.

The Group treats TLTRO as floating rate instruments in respect of changes in the ECB key rates which are the deposit facility rate (DFR) or the main refinancing operation rate. Whenever the ECB changes the key rates the effective interest rate of the TLTRO is recalculated assuming that the current ECB rate will apply until the end of the respective TLTRO tranche life. If the ECB brings any unconditional changes to the TLTRO interest rate other than changes in the key rates which would also involve changes in how the interest rate is calculated, they are treated as catch-up adjustments and presented in the 'Net interest income´.

In October 2022 the ECB announced a change in the method for applying the key ECB rates for TLTRO III tranches. For the Group this means that the current DFR applies from 23 November 2022 (instead of the average DFR calculated over the entire 3-year life of the TLTRO III tranches). This resulted in a recognition of a catch-up loss in the amount of EUR 6.6 million in 2022. Early redemptions of the tranches in November 2022 resulted in a positive catch up effect amounting to EUR 2.6 million. In 2021 the Group recognised a catch-up adjustment gain in the amount of EUR 12.9 million. This resulted from the assessment that it will meet the 0% lending threshold as the qualifying condition for the interest rate reduction by 50bp in the period between June 2021 and June 2022.

The carrying amount of the TLTRO III liabilities was EUR 999.7 million at the end of 2022 (2021: EUR 2,718.8 million). The main reason for the decrease in 2022 were early redemptions of TLTRO III tranches in the nominal amount of EUR 1,750 million. At 2022 year end the Group considered that additional early redemptions are not likely and recognised no catch up adjustment gain/loss in that respect.

In 2022 the interest expense recognised for TLTRO III loss was EUR 6.6 million. The negative interest expense amounted to EUR 9.0 million (2021: negative interest expense EUR 27.8 million, including the catch up adjustment gain of EUR 12.9 million).

Deposits from customers

EUR ths.	31.12.2021	31.12.2022
Overnight deposits	**11,095,454**	**11,201,963**
Non-savings deposits	11,095,454	11,201,963
General governments	167,730	161,181
Other financial corporations	355,226	298,745
Non-financial corporations	2,090,259	2,284,692
Households	8,482,239	8,457,345
Term deposits	**4,877,309**	**5,710,792**
Deposits with agreed maturity	851,771	1,756,184
Non-savings deposits	851,771	1,756,184
General governments	417	345,458
Other financial corporations	7,261	408,914
Non-financial corporations	91,931	459,027
Households	752,162	542,785
Deposits redeemable at notice	4,025,538	3,954,608
Households	4,025,538	3,954,608
Deposits from customers	**15,972,763**	**16,912,755**
General governments	168,147	506,639
Other financial corporations	362,487	707,659
Non-financial corporations	2,182,190	2,743,719
Households	13,259,939	12,954,738

Debt securities issued

EUR ths.	31.12.2021	31.12.2022
Subordinated debt securities issues	51,241	22,134
Senior non-preferred bonds	30,687	30,687
Other debt securities issued	1,865,002	2,936,685
Bonds	488,774	879,930
Mortgage covered bonds	1,376,228	2,056,755
Debt securities issued	**1,946,930**	**2,989,506**

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.	31.12.2021	31.12.2022
Debt securities issued		
Opening balance as at 1 January	2,051,731	1,946,930
Cash-flows reported within financing activities	(73,174)	1,163,344
Non-cash adjustments	(31,627)	(120,768)
Closing balance as at 31 December	1,946,930	2,989,506
Lease liability		
Opening balance as at 1 January	20,577	20,051
Cash-flows reported within financing activities	(6,735)	(7,427)
Non-cash adjustments	6,209	8,573
Closing balance as at 31 December	20,051	21,197

Non-cash adjustments represent 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 statement of financial position 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	2021	2022
Subordinated Bonds	November 2011	November 2023	4.58%	4,250	1,000	EUR	6,083	6,353
Subordinated Bonds	June 2012	June 2022	-	11,000	1,000	EUR	16,999	-
Subordinated Bonds	November 2012	November 2022	-	9,000	1,000	EUR	12,399	1
Subordinated Bonds	September 2018	September 2028	2.88%	33	100,000	EUR	3,327	3,326
Subordinated Bonds	September 2018	September 2028	3.67%	33	100,000	EUR	3,314	3,335
Subordinated Bonds	November 2018	November 2028	2.45%	91	100,000	EUR	9,119	9,119
Total							**51,241**	**22,134**

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 1.88% and maturity date in February 2026 in the total amount of EUR 30.7 million as at 31 December 2022 (2021: EUR 30.7 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 semi annual 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 2022 other debt securities issued included embedded derivatives (equity and commodities) in the amount of EUR 0.0 million (2021: 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	2021	2022
Senior Unsecured Bonds	June 2019	December 2025	0.60%	5,572	1,000	EUR	5,574	5,473
Senior Unsecured Bonds	June 2019	June 2022	-	3,653	1,000	USD	3,261	-
Covered Bonds	June 2019	June 2026	0.13%	5,000	100,000	EUR	498,034	472,138
Senior Unsecured Bonds	February 2020	February 2024	0.00%	170	100,000	EUR	17,000	17,000
Senior Unsecured Bonds	March 2020	March 2025	0.00%	53	2,000,000	CZK	4,105	4,282
Senior Unsecured Bonds	June 2020	June 2025	0.80%	4,930	1,000	EUR	4,950	4,788
Senior Unsecured Bonds	June 2020	June 2023	0.70%	4,947	1,000	EUR	4,965	4,939
Senior Unsecured Bonds	June 2020	June 2025	0.63%	45	100,000	EUR	4,504	4,507
Senior Unsecured Bonds	August 2020	August 2023	0.35%	4,907	1,000	EUR	4,913	4,875
Senior Unsecured Bonds	October 2020	October 2025	0.25%	1,000	100,000	EUR	99,583	99,708
Senior Unsecured Bonds	March 2021	March 2027	2.19%	1,000	100,000	EUR	102,348	102,513
Senior Unsecured Bonds	June 2021	June 2024	0.60%	1,299	1,000	USD	1,151	1,222
Senior Unsecured Bonds	June 2021	June 2028	0.38%	1,302	100,000	EUR	129,610	152,571
Covered Bonds	July 2007	July 2027	4.95%	250	66,388	EUR	21,482	18,144
Covered Bonds	January 2013	January 2025	3.10%	87	50,000	EUR	4,412	4,411
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 2022	-	220	50,000	EUR	11,166	-
Covered Bonds	February 2015	February 2022	-	350	100,000	EUR	35,279	-
Covered Bonds	August 2015	August 2025	1.38%	100	100,000	EUR	10,027	10,035
Covered Bonds	August 2015	August 2022	-	100	100,000	EUR	10,037	-
Covered Bonds	March 2016	March 2026	1.00%	90	100,000	EUR	9,026	9,036
Senior Unsecured Bonds	March 2017	March 2022	-	4,288	1,000	EUR	4,308	-
Covered Bonds	March 2017	March 2025	0.75%	1,000	100,000	EUR	100,477	100,521
Senior Unsecured Bonds	April 2017	April 2022	-	4,336	1,000	EUR	4,354	-
Senior Unsecured Bonds	April 2017	April 2022	-	30	100,000	EUR	3,013	-
Senior Unsecured Bonds	May 2017	May 2022	-	4,272	1,000	EUR	4,287	-
Covered Bonds	June 2017	June 2022	-	50	100,000	EUR	5,009	-
Senior Unsecured Bonds	July 2017	July 2022	-	4,342	1,000	EUR	4,353	-
Senior Unsecured Bonds	August 2017	August 2022	-	4,130	1,000	EUR	4,140	-
Senior Unsecured Bonds	September 2017	September 2022	-	8,908	1,000	EUR	8,922	-
Senior Unsecured Bonds	September 2017	September 2022	-	4,410	1,000	EUR	4,418	-
Covered Bonds	October 2017	October 2022	-	1,500	100,000	EUR	150,131	-
Senior Unsecured Bonds	November 2017	November 2022	-	4,861	1,000	USD	4,303	-
Senior Unsecured Bonds	November 2017	November 2027	1.38%	44	100,000	EUR	4,403	4,404
Senior Unsecured Bonds	February 2018	February 2023	0.65%	8,878	1,000	EUR	8,930	8,648
Senior Unsecured Bonds	February 2018	February 2023	2.15%	3,583	1,000	USD	3,224	3,264
Senior Unsecured Bonds	March 2018	March 2023	0.65%	9,309	1,000	EUR	9,355	9,120
Senior Unsecured Bonds	June 2018	June 2024	0.75%	4,608	1,000	EUR	4,626	4,446
Senior Unsecured Bonds	August 2018	August 2024	0.70%	4,621	1,000	EUR	4,632	4,494
Covered Bonds	August 2018	August 2025	0.63%	2,500	100,000	EUR	256,069	233,245
Senior Unsecured Bonds	September 2018	September 2024	0.70%	4,530	1,000	EUR	4,539	4,427
Senior Unsecured Bonds	November 2018	November 2024	0.75%	4,699	1,000	EUR	4,702	4,662
Senior Unsecured Bonds	December 2018	December 2024	0.75%	4,794	1,000	EUR	4,797	4,575
Covered Bonds	December 2018	December 2024	0.50%	2,500	100,000	EUR	253,566	235,947
Senior Unsecured Bonds	February 2019	February 2025	0.70%	9,490	1,000	EUR	9,547	9,172
Senior Unsecured Bonds	March 2019	March 2025	0.00%	100	50,000	EUR	4,891	4,925

The table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2021	2022
Covered Bonds	April 2022	April 2027	1.13%	5,000	100,000	EUR	-	459,330
Senior Unsecured Bonds	May 2022	May 2026	2.00%	19,971	1,000	EUR	-	20,219
Senior Unsecured Bonds	June 2022	June 2025	2.70%	29,947	1,000	EUR	-	30,220
Senior Unsecured Bonds	July 2022	December 2029	5.00%	285	200,000	USD	-	50,145
Senior Unsecured Bonds	September 2022	September 2025	3.00%	39,961	1,000	EUR	-	40,263
Covered Bonds	October 2022	April 2028	3.50%	5,000	100,000	EUR	-	502,435
Senior Unsecured Bonds	October 2022	April 2026	3.30%	49,986	1,000	EUR	-	50,276
Senior Unsecured Bonds	October 2022	October 2025	4.35%	4,999	1,000	USD	-	4,723
Senior Unsecured Bonds	October 2022	October 2034	4.88%	210	100,000	EUR	-	21,612
Senior Unsecured Bonds	October 2022	October 2025	4.63%	250	100,000	EUR	-	25,145
Senior Unsecured Bonds	October 2022	October 2025	3.90%	50	100,000	EUR	-	5,036
Senior Unsecured Bonds	November 2022	November 2025	4.50%	3,759	1,000	USD	-	3,540
Senior Unsecured Bonds	November 2022	November 2024	3.50%	49,986	1,000	EUR	-	50,142
Senior Unsecured Bonds	November 2022	May 2026	3.50%	1,130	100,000	EUR	-	113,522
Senior Unsecured Bonds	July 2021	July 2031	0.15%	1	1,000	EUR	1,069	1,071
Total							**1,865,002**	**2,936,685**

In May 2020 the Group issued retained covered bond in the value of 500 mil. EUR with interest rate 0.125% and maturity of 7.5 years, which was not placed in the market and according to IFRS is therefore not possible to recognize this bond in the statement of financial position. In June 2022 the Group issued another retained covered bond in the value of 500 mil. EUR with an interest rate of 2.00% and maturity of 6 years, which was also not placed in the market and according to IFRS, it is therefore not possible to recognize this bond in the statement of financial position. Subsequently these covered bonds were used as collateral for obtaining term deposit from TLTRO III. See also Note 21 Collaterals.

Other financial liabilities

As at 31 December 2022 other financial liabilities in amount of EUR 113.8 million (2021: EUR 36.5 million) represent unpaired payments from other banks.

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 statement of financial position, 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 statement of financial position 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 statement of financial position 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 statement of financial position, 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 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 statement of financial position. 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

	31.12.2021			31.12.2022		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**2,505,756**	**47,874**	**46,131**	**2,911,586**	**77,139**	**73,533**
Interest rate derivatives	2,063,330	11,392	10,473	2,434,047	50,717	48,613
Foreign exchange	442,426	36,482	35,658	477,539	26,422	24,920
Total gross amounts	**2,505,756**	**47,874**	**46,131**	**2,911,586**	**77,139**	**73,533**

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 statement of financial position 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

	31.12.2021		31.12.2022	
EUR ths.	Designated at fair value	Mandatorily at fair value	Designated at fair value	Mandatorily at fair value
Equity instruments	-	7,155	-	9,694
Debt securities	-	7,913	-	7,512
Other financial corporations	-	7,913	-	7,512
Non-trading financial assets at fair value through profit or loss		**15,068**		**17,206**

´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 statement of financial position 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 modelling 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 methods.

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 0.7 million at 31. December 2022 (2021: EUR 3.1 million) and the total DVA-adjustment amounted to EUR 1.1 million (2021: EUR 0.9 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 statement of financial position 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
	31.12.2021				31.12.2022			
Assets								
Financial assets HfT	-	47,874	-	47,874	-	77,139	-	77,139
Derivatives	-	47,874	-	47,874	-	77,139	-	77,139
Non-trading financial assets at FVPL	-	-	15,068	15,068	960	-	16,246	17,206
Equity instruments	-	-	7,155	7,155	-	-	9,694	9,694
Debt securities	-	-	7,913	7,913	960	-	6,552	7,512
Hedge accounting derivatives	-	16,455	-	16,454	-	16,879	-	16,879
Total assets	**-**	**64,329**	**15,068**	**79,396**	**960**	**94,018**	**16,246**	**111,224**
Liabilities								
Financial liabilities HfT	-	46,131	-	46,131	-	73,533	-	73,533
Derivatives	-	46,131	-	46,131	-	73,533	-	73,533
Hedge accounting derivatives	-	31,844	-	31,844	-	103,266	-	103,266
Total liabilities	**-**	**77,975**	**-**	**77,975**	**-**	**176,799**	**-**	**176,799**

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 2022 were immaterial and in 2021 as well.

Movements in Level 3

Development of fair value of financial instruments in Level 3

EUR ths.	01.01.2022	Gain/loss in profit or loss	Purchases	Sales	Transfer out of Level 3	Currency translation	31.12.2022
Assets							
Non-trading financial assets at FVPL	15,068	(1,509)	4,147	(500)	(960)	-	16,246
Equity instruments	7,155	1,645	894	-	-	-	9,694
Debt securities	7,913	(3,154)	3,253	(500)	(960)	-	6,552
Total assets	**15,068**	**(1,509)**	**4,147**	**(500)**	**(960)**	**-**	**16,246**

EUR ths.	01.01.2021	Gain/loss in profit or loss	Purchases	Sales	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**

Transfers into and out of Level 3 mainly result from changes in valuation models with observable or non-observable parameters.

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

EUR ths.	31.12.2021	31.12.2022
Assets		
Non-trading financial assets at FVPL	(255)	3,102
Equity instruments	(428)	1,645
Debt securities	173	1,457
Total assets	**(255)**	**3,102**

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 statement of financial position 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)
31.12.2022					
Financial assets at FVPL	Non-trading equity instruments (participations)	9.69	Approved budgets	Risk spread used in discounting future cash flows	N/A
	Non-trading debt instrument	3.06	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	2023-2030
				Risk spread used in discounting future cash flows	50bp
		3.49	Theoretical price with some expert opinion (market unobservable) inputs	Risk spread used in discounting future cash flows	105bp
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

Sensitivity analysis using reasonably possible alternatives per product type*

	31.12.2021		31.12.2022	
	Fair value changes		Fair value changes	
Eur mil.	Positive	Negative	Positive	Negative
Debt securities	0.00	(0.00)	-	-
Income statement	0.00	(0.00)	-	-
Total	0.00	(0.00)	-	-
Income statement	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 shift 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
31.12.2022					
Assets					
Cash and cash balances	1,254,543	1,254,543	339,594	914,949	-
Financial assets at AC	21,644,120	21,191,973	3,516,465	298,552	17,376,956
Loans and advances to banks	26	26	-	-	26
Loans and advances to customers	17,489,195	17,333,791	-	-	17,333,791
of which: Lending for house purchase	10,237,101	10,195,492	-	-	10,195,492
of which: Credit for consumption	1,402,684	1,391,450	-	-	1,391,450
of which: Corporate loans and others	5,849,410	5,746,849	-	-	5,746,849
Debt securities	4,154,899	3,858,156	3,516,465	298,552	43,139
Finance lease receivables	284,500	266,208	-	-	266,208
Trade and other receivables	155,573	153,971	-	-	153,971
Liabilities					
Financial liabilities at AC	21,189,679	20,847,160	502,219	1,896,632	18,448,309
Deposits from banks	1,173,628	1,170,748	-	-	1,170,748
Deposits from customers	16,912,755	16,655,294	-	-	16,655,294
Debt securities in issue	2,989,506	2,907,328	502,219	1,896,632	508,477
Other financial liabilities	113,790	113,790	-	-	113,790

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
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

As at 31 December 2022 fair value of financial guarantees given amounts EUR -0.5 million (2021: EUR -0.5 million) and fair value of irrevocable commitments given amounts EUR 134.8 million (2021: EUR 5.0 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, of finance lease receivables and of trade and other receivables 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 statement of financial position, 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

EUR ths.	Type of hedged items	Notional amount	
		31.12.2021	31.12.2022
Fair value hedges		**1,095,521**	**1,969,962**
Assets	Bonds at AC	331,224	331,224
Liabilities	Issued bonds	764,297	1,638,738

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 2022 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 statement of financial position.

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
31.12.2022								
Fair value hedges	**16,879**	**103,266**	**(73,419)**	**1,969,961**	**40,000**	**-**	**1,455,521**	**474,441**
Interest rate risk	16,879	103,266	(73,419)	1,969,961	40,000	-	1,455,521	474,441
Total gross amounts	**16,879**	**103,266**	**(73,419)**	**1,969,961**	**40,000**	**-**	**1,455,521**	**474,441**
Offset	-	-	-	-	-	-	-	-
Total	**16,879**	**103,266**	**(73,419)**	**1,969,961**	**40,000**	**-**	**1,455,521**	**474,441**
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**

Hedged items in fair value hedges

EUR ths.	Carrying amount	Hedge adjustments: included in the carrying amount	Hedge adjustments: Thereof: for the period used for recognition of hedge ineffectiveness
31.12.2022			
Financial assets at AC	**328,278**	**(15,845)**	**(41,852)**
Interest rate risk	328,278	(15,845)	(41,852)
Financial liabilities at AC	**(1,540,228)**	**101,448**	**116,201**
Interest rate risk	(1,540,228)	101,448	116,201
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

The hedged items are disclosed in the following line items in the statement of financial position:

- 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.

Fair value hedge of assets

As at 31 December 2022 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 (2021: EUR 331.2 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 2022 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 41.9 million (2021: net gain EUR 15.0 million). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to EUR 41.9 million (2021: net loss EUR 14.9 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 2022 the Group holds covered bonds in total nominal value of EUR 1,638.7 million (2021: EUR 764.3 million).

During the year 2022 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 115.3 million (2021: net loss EUR 18.0 million). On the other hand, a net gain on the hedged item attributable to the hedged risk amounted to EUR 116.2 million (2021: net gain EUR 18.0 million).

20. OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position 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 statement of financial position 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 statement of financial position (net)	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Other financial collateral received	
31.12.2022							
Derivatives	77,138	-	77,138	21,633	-	-	55,505
Hedge accounting	16,879	-	16,879	15,354	-	-	1,525
Total	**94,017**	**-**	**94,017**	**36,987**	**-**	**-**	**57,030**
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**

Financial liabilities subject to offsetting and potential offsetting agreements

EUR ths.	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in statement of financial position (net)	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Other financial collateral pledged	
31.12.2022							
Derivatives	73,533	-	73,533	21,633	-	-	51,900
Hedge accounting	103,266	-	103,266	15,354	-	86,080	1,832
Total	**176,799**	**-**	**176,799**	**36,987**	**-**	**86,080**	**53,732**
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**

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.

21. COLLATERALS

Carrying amount of financial assets pledged as collaterals

EUR ths.	31.12.2021	31.12.2022
Financial assets at AC	4,323,689	3,914,419
Total	**4,323,689**	**3,914,419**

EUR ths.	Carrying amount of transferred assets: Total	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Carrying amount of associated liabilities: Total	Other associated liabilities
As of 31.12.2022						
Financial assets at amortised cost						
Debt securities	**520,107**	86,080	50,128	383,899	**470,127**	470,127
Loans and advances to customers	**3,394,312**	-	2,283,883	1,110,429	**2,711,750**	2,711,750
Assets pledged as collateral	**3,914,419**	**86,080**	**2,334,011**	**1,494,328**	**3,181,877**	**3,181,877**

EUR ths.	Carrying amount of transferred assets: Total	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Carrying amount of associated liabilities: Total	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**

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 refinancing transactions with the respective National Bank, loans backing issued mortgage bonds and other collateral arrangements.

In March 2021, the Group entered into TLTRO III with central bank in the amount of EUR 1,000 million which was shown within other associated liabilities. At 23 November 2022 the Group partially repaid this tranche in amount of EUR 250 million. The Group has pledged SK government bond (EUR 11.5 million), own retained covered bond (EUR 1.000 million) where mortgage loans are shown as encumbered assets (EUR 1,110 million) as collateral to TLTRO III. The collateral is shown within other transferred assets.

In June 2021, the Group entered into TLTRO III 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 372.4 million) as collateral to TLTRO III. The collateral is shown within other transferred assets.

RISK AND CAPITAL MANAGEMENT

22. 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.

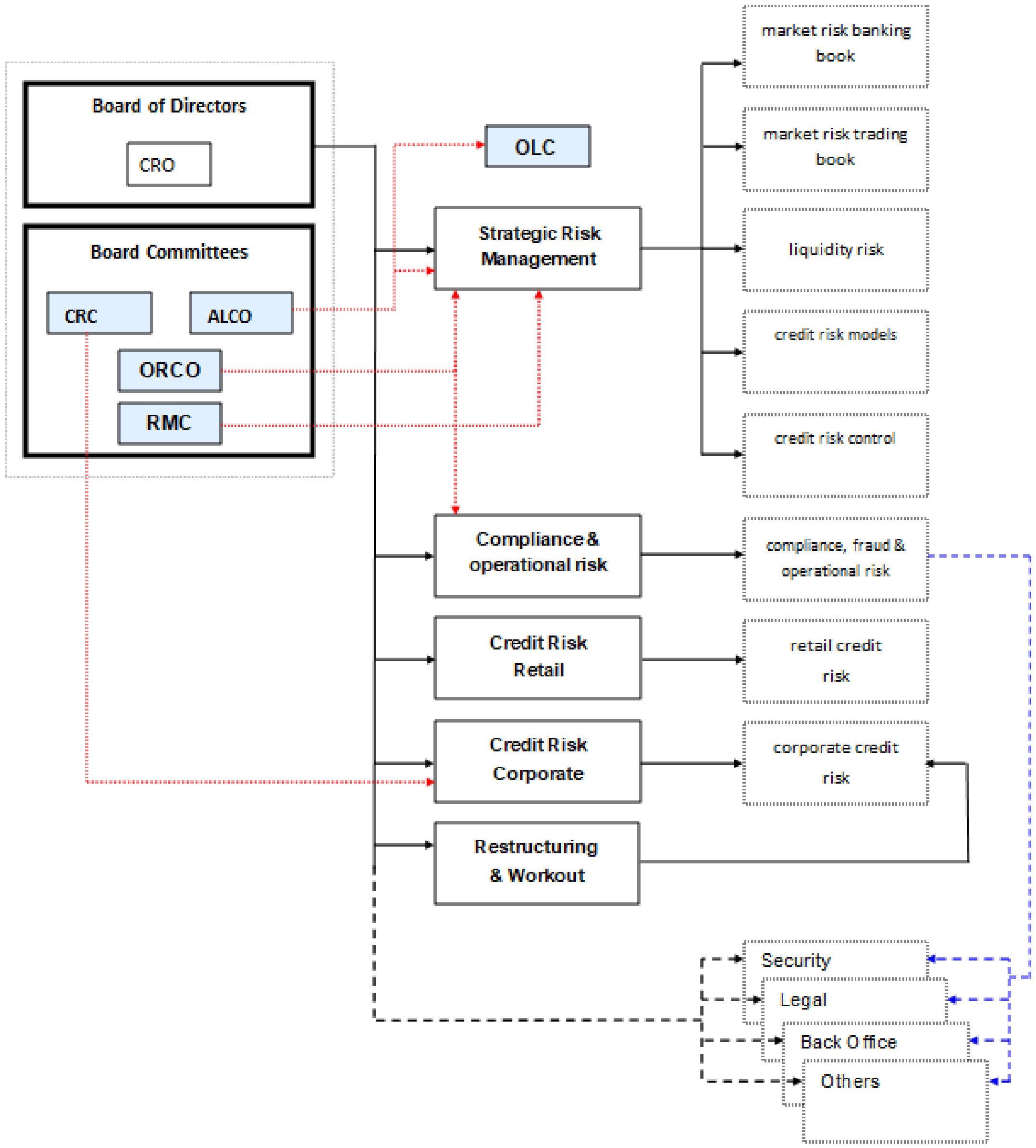
The Bank has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed. The risk strategy is consistent with the business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

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 organisational 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 organisation 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, organisation 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 organisational 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 (RMA)
- Risk-bearing capacity calculation (RCC)
- Stress testing
- Capital allocation and performance 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 in trading book, FX in banking book 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 2022 the utilization of the economic capital was in the range 52 - 56%.

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.

23. OWN FUNDS AND CAPITAL REQUIREMENTS

Regulatory requirements

Since 1 January 2014 the Group has been calculating the regulatory capital and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU). 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 Group for regulatory purposes and for the disclosure of regulatory information.

According to information provided internally to key management, The Group fulfilled all regulatory capital requirements during the year 2022 and throughout the year 2021 consisting of 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 are derived from the statement of financial position 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.

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

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
Prvá stavebná sporiteľňa, 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
Monilogi s.r.o.	Non-financial corporations	joint-venture	at equity method	at equity method	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
SLSP Seed Starter, s.r.o.	Non-financial corporations	subsidiary	fully consolidated	at equity method	Other than Financial sector entity

As of 31 December 2022 the number of companies consolidated pursuant to IFRS was 9. As of 31 December 2022 the number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR) was 8.

Seven entities are part of the regulatory scope of consolidation consolidated at equity method. Five 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. Monilogi s.r.o. and Dostupný Domov j.s.a.

Consolidate own funds

Own funds according to CRR consist of CET1, additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk amount.

The regulatory minimum capital ratios including the capital buffers as of 31 December 2022 amount to:

- 9.99% for CET1 (CET1 Pillar 1 requirement 4.5%, capital conservation buffer 2.5%, Other Systemic Important Institution (O-SII) buffer 2% and countercyclical capital buffer specific for the bank 0.99%),
- 11.49% for tier 1 capital (sum of CET1 and AT1)
- 13.49% for total own funds.

Capital buffer requirements are set out in Act on Banks 483/2001

- capital conservation buffer Article 33b
- Global Systemic Important Institution (G-SII) Article 33a and Article 33d (5)
- Other Systemic Important Institution (O-SII) buffer Article 33a and Article 33d (6)
- systemic risk buffer Article 33a, Article 33e
- countercyclical buffer Article 33a, Article 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).

As a result of the 2021 SREP process performed by the European Central Bank (ECB) the Group applies a Pillar 2 requirement (P2R) of 1.5% as of 31. December 2022. The minimum CET1 ratio of 5.34% encompasses the Pillar 1 minimum requirement of 4.5% and the Pillar 2 requirement of 0.84% (56.25% of 1.5%) as of 31. December 2022.

The regulatory minimum capital ratios including the capital buffers and SREP requirements as of 31 December 2022 amount to:

- a CET1 requirement of 10.83%, (Pillar 1 requirement of 4.5%, combined capital buffers of 5.49% and 56.25% of 1.5% Pillar 2 requirement)
- a T1 requirement of 12.62% (Pillar 1 T1 requirement of 6%, combined capital buffers of 5.49% and 75% of 1.5% Pillar 2 requirement)
- a total own funds requirement of 14.99% (Pillar 1 own funds requirement of 8%, combined capital buffers of 5.49% 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.

	31.12.2021	31.12.2022
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%**	**5.49%**
Capital conservation buffer	2.50%	2.50%
Institution-specific countercyclical capital buffer	0.98%	0.99%
Systemic risk buffer (SRB)	1.00%	0.00%
O-SII capital buffer	1.00%	2.00%
Minimum CET 1 requirement (incl. CBR)	9.98%	9.99%
Minimum Tier 1 requirement (incl. CBR)	11.48%	11.49%
Minimum Own Funds requirement (incl. CBR)	13.48%	13.49%
Pillar2		
Minimum CET1 requirement	0.84%	0.84%
Minimum T1 requirement	1.13%	1.13%
Minimum Own Funds requirement	1.50%	1.50%
Total CET1 requirement for Pillar 1 and Pillar 2	**10.82%**	**10.83%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**12.61%**	**12.62%**
Total Own Funds requirement for Pillar 1 and Pillar 2	**14.98%**	**14.99%**

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):

in EUR ths.	31.12.2021	31.12.2022
Common equity tier 1 capital (CET1)		
Capital instruments eligible as CET1	212,000	212,000
Retained earnings	1,226,497	1,340,782
Accumulated other comprehensive income	(1,139)	(16)
Common equity tier 1 capital (CET1) before regulatory adjustments	**1,437,358**	**1,552,766**
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(947)	(1,116)
Value adjustments due to the requirements for prudent valuation	(5,894)	(2,811)
Securitisation positions which can alternatively be subject to a 1.250% risk weight	(12,999)	(13,333)
Other intangible assets	(16,068)	(11,294)
Insufficient coverage for non-performing exposures	(32)	(35)
Additional deductions of CET1 Capital due to Article 3 CRR	(222)	(349)
Development of unaudited risk provisions during the year (EU No 183/2014)	(1,099)	(32,114)
Common equity tier 1 capital (CET1)	**1,400,097**	**1,491,714**
Additional tier 1 capital (AT1)		
Capital instruments eligible as AT1	380,000	380,000
Additional tier 1 capital (AT1)	**380,000**	**380,000**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**1,780,097**	**1,871,714**
Tier 2 capital (T2)		
Capital instruments and subordinated loans eligible as T2	19,686	16,412
IRB excess of provisions over expected losses eligible	44,542	50,596
T2 instruments of financial sector entities where the institution has a significant investment	(5,240)	(5,247)
Tier 2 capital (T2)	**58,987**	**61,761**
Total own funds	**1,839,084**	**1,933,475**
Capital requirement	**717,683**	**802,015**
CET1 capital ratio	**15.61%**	**14.88%**
Tier 1 capital ratio	**19.84%**	**18.67%**
Total capital ratio	**20.50%**	**19.29%**

The Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

	31.12.2021		31.12.2022	
EUR ths.	Total risk	Capital requirement	Total risk	Capital requirement
Total Risk Exposure Amount	**8,971,040**	**717,683**	**10,025,185**	**802,015**
Risk weighted assets (credit risk)	8,100,053	648,005	9,228,243	738,259
Standardised approach	572,884	45,831	691,963	55,356
IRB approach	7,423,634	593,891	8,432,745	674,620
Securitisation positions	103,535	8,283	103,535	8,283
Trading book, foreign FX risk and commodity risk	2,791	222	1,613	129
Operational Risk	858,638	68,691	788,357	63,069
Exposure for CVA	9,558	765	6,972	558

The Group uses AMA model for calculation of RWA and capital requirements arising from operational risk. The calculation is performed on ERSTE Group level.

24. CREDIT RISK

In 2022, management attention was dedicated to the evolving Russia-Ukraine conflict, which poses serious threats to the European but also global economy. The Bank is not directly impacted, as it has no operating presence in geopolitical region of Russia or Ukraine and also direct exposure to these two markets is immaterial. Still, a number of ad-hoc risk management activities were undertaken in order to evaluate, actively steer and mitigate indirect impact on the capital position and risk profile. All stress scenarios, including 'no gas from Russia', would have manageable impact on the Group risk profile, keeping all capital ratios above the limits.

Environmental, Social and Governance (ESG) risks remained one of the top priorities also in 2022. Focus in risk was on advancements in implementation of initiatives to achieve compliance with regulatory requirements and expectations such as performance of the ECB Climate Stress Test, improvements in the Carbon Footprint Calculation, development of methodologies for setting decarbonization targets for priority sectors, enhancement of Risk Materiality Assessment and reporting system, and incorporation of climate-related and environmental risks in credit risk processes.

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.

The Bank also considers ESG factors in its risk management and industry strategy framework (e.g. ESG Factor Heatmap as an input in respective industry strategies). The Bank has established an ESG risk framework and toolkit for assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes.

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´s 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 set out above. 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 statement of financial position items:

- cash and cash balances - other demand deposits to credit institutions;
- financial assets held for trading – derivatives, debt securities (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 hedge accounting derivatives;
- trade and other receivables;
- off-balance sheet positions (financial guarantees, irrevocable and revocable loan and other commitments given).

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 2021 and 31 December 2022, credit risk exposure increased from EUR 23,860 million to EUR 27,001 million. This is an increase of 13.17% or EUR 3,141 of which EUR 2,27 million increase was in on-balance and EUR 0,87 million in off-balance (of which Revocable part of off-balance was EUR 0,65 million, without impact on ECL). Revocable part of off-balance sheet represents EUR 1,938 million and irrevocable EUR 2,508 million. In 2021 revocable part of off-balance sheet represented EUR 1,290 million and irrevocable EUR 2,285 million.

Reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure

31.12.2022	Gross carrying amount	Credit loss allowances					Net carrying amount
EUR ths.		Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	
Cash and cash balances - other demand deposits	15,512	-	-	-	-	-	15,512
Financial assets at amortised cost	21,988,069	43,479	110,310	158,695	31,465	-	21,644,120
Loans and advances to banks	26	-	-	-	-	-	26
Loans and advances to customers	17,831,241	42,629	109,257	158,695	31,465	-	17,489,195
of which: Lending for house purchase	10,342,105	18,578	19,242	66,070	1,114	-	10,237,101
of which: Credit for consumption	1,468,003	8,038	14,493	42,704	84	-	1,402,684
of which: Corporate loans and others	6,021,133	16,013	75,522	49,921	30,267	-	5,849,410
Debt securities	4,156,802	850	1,053	-	-	-	4,154,899
Finance lease receivables	288,141	394	509	2,727	11	-	284,500
Trade and other receivables	162,003	627	956	4,379	468	-	155,573
Non-trading financial assets at fair value through profit or loss - Debt securities	7,512	-	-	-	-	-	7,512
Financial assets - held for trading	77,139	-	-	-	-	-	77,139
Positive fair value of derivatives - hedge accounting	16,879	-	-	-	-	-	16,879
Total credit risk exposure on-balance	**22,555,255**	**44,500**	**111,775**	**165,801**	**31,944**	**-**	**22,201,235**
Off-balance sheet	4,446,011	4,097	10,437	1,946	4,556	2,304	4,422,671
Total credit risk exposure	**27,001,266**	**48,597**	**122,212**	**167,747**	**36,500**	**2,304**	**26,623,906**

Allocation of credit loss allowances is affected by the war in Ukraine. 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 changes in collective assessment of credit loss allowances is provided in section Collective assessment.

31.12.2021	Gross carrying amount	Credit loss allowances					Net carrying amount
EUR ths.		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	19,828,117	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	3,575,425	5,358	7,444	572	11,277	1,134	3,549,642
Total credit risk exposure	**23,859,889**	**49,105**	**119,140**	**166,563**	**33,196**	**1,134**	**23,490,752**

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 114.99 million (2021: EUR 107.33 million), the defaulted part to EUR 11.16 million (2021: EUR 5.71 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
31.12.2022							
Cash and cash balances - other demand deposits	-	-	15,512	-	-	-	15,512
Financial assets at amortised cost	-	4,071,806	296,472	247,810	4,932,405	12,439,576	21,988,069
Loans and advances to banks	-	-	26	-	-	-	26
Loans and advances to customers	-	337,264	-	221,980	4,832,421	12,439,576	17,831,241
of which: Lending for house purchase	-	-	-	-	-	10,342,105	10,342,105
of which: Credit for consumption	-	-	-	-	-	1,468,003	1,468,003
of which: Corporate loans and others	-	337,264	-	221,980	4,832,421	629,468	6,021,133
Debt securities	-	3,734,542	296,446	25,830	99,984	-	4,156,802
Finance lease receivables	-	1,063	-	39	284,878	2,161	288,141
Trade and other receivables	-	1,822	4,582	2,222	153,306	71	162,003
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	7,512	-	-	7,512
Derivatives - held for trading	-	-	55,079	-	22,055	5	77,139
Positive fair value of derivatives - hedge accounting	-	-	16,879	-	-	-	16,879
Total credit risk exposure on-balance	**-**	**4,074,691**	**388,524**	**257,583**	**5,392,644**	**12,441,813**	**22,555,255**
Off-balance	-	154,096	34,223	236,387	3,474,900	546,405	4,446,011
Total credit risk exposure	**-**	**4,228,787**	**422,747**	**493,970**	**8,867,544**	**12,988,218**	**27,001,266**

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	-	81,028	45,667	172,952	2,745,148	530,631	3,575,426
Total credit risk exposure	**-**	**3,973,000**	**310,823**	**332,307**	**7,340,890**	**11,902,870**	**23,859,890**

Credit risk exposure by financial instrument and risk category

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2022					
Cash and cash balances - other demand deposits	15,512	-	-	-	15,512
Financial assets at amortised cost	17,142,000	3,339,413	1,226,265	280,391	21,988,069
Loans and advances to banks	24	2	-	-	26
Loans and advances to customers	12,985,698	3,338,897	1,226,255	280,391	17,831,241
of which: Lending for house purchase	8,229,618	1,436,628	536,690	139,169	10,342,105
of which: Credit for consumption	767,029	452,945	190,861	57,168	1,468,003
of which: Corporate loans and others	3,989,051	1,449,324	498,704	84,054	6,021,133
Debt securities	4,156,278	514	10	-	4,156,802
Finance lease receivables	124,696	144,577	14,620	4,248	288,141
Trade and other receivables	72,941	42,918	40,454	5,690	162,003
Non-trading financial assets at fair value through profit or loss - 'Debt securities	6,552	960	-	-	7,512
Derivatives - held for trading	55,431	21,694	13	1	77,139
Positive fair value of derivatives - hedge accounting	16,879	-	-	-	16,879
Total credit risk exposure on-balance	**17,434,011**	**3,549,562**	**1,281,352**	**290,330**	**22,555,255**
Off-balance	3,069,998	1,072,460	294,955	8,598	4,446,011
Total credit risk exposure	**20,504,009**	**4,622,022**	**1,576,307**	**298,928**	**27,001,266**

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	3,026,136	305,761	239,045	4,483	3,575,425
Total credit risk exposure	**20,683,913**	**1,694,095**	**1,182,277**	**299,604**	**23,859,889**

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
31.12.2022						
Cash and cash balances - other demand deposits	15,512	-	-	-	-	15,512
Financial assets at amortised cost	19,339,360	2,278,559	270,743	99,407	-	21,988,069
Loans and advances to banks	24	2	-	-	-	26
Loans and advances to customers	15,231,289	2,229,802	270,743	99,407	-	17,831,241
of which: Lending for house purchase	9,917,061	284,914	137,315	2,815	-	10,342,105
of which: Credit for consumption	1,259,115	151,630	57,039	219	-	1,468,003
of which: Corporate loans and others	4,055,113	1,793,258	76,389	96,373	-	6,021,133
Debt securities	4,108,047	48,755	-	-	-	4,156,802
Finance lease receivables	250,629	33,045	4,220	247	-	288,141
Trade and other receivables	152,455	3,858	4,938	752	-	162,003
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	7,512	7,512
Derivatives - held for trading	-	-	-	-	77,139	77,139
Positive fair value of derivatives - hedge accounting	-	-	-	-	16,879	16,879
Total credit risk exposure on-balance	**19,757,956**	**2,315,462**	**279,901**	**100,406**	**101,530**	**22,555,255**
Off-balance	2,975,192	746,605	5,775	25,736	692,703	4,446,011
Total credit risk exposure	**22,733,148**	**3,062,067**	**285,676**	**126,142**	**794,233**	**27,001,266**

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	2,647,416	318,512	4,046	47,929	557,522	3,575,425
Total credit risk exposure	**20,538,140**	**2,278,493**	**293,840**	**119,653**	**629,763**	**23,859,889**

'Not subject to IFRS 9 impairment' means that those statement of financial position items are out of IFRS9 rules.

Credit risk exposure by industry and financial instrument

31.12.2022	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
I. Natural Resources & Commodities	-	-	-	-	578,917	-	32,594	46,607	-	69	429,642	1,087,829
II. Energy	-	-	-	-	693,161	29,259	9,402	3,020	-	21,648	590,723	1,347,213
III. Construction and building materials	-	-	-	-	343,639	-	18,196	21,550	-	2	931,672	1,315,059
IV. Automotive	-	-	-	-	221,806	-	9,381	9,356	-	-	324,169	564,712
V. Cyclical Consumer Products	-	-	-	-	294,709	-	6,440	12,166	-	29	174,231	487,575
VI. Non-Cyclical Consumer Products	-	-	-	-	395,629	9,356	9,627	16,979	-	7	157,615	589,213
VII. Machinery	-	-	-	-	218,261	-	11,175	21,346	-	11	220,389	471,182
VIII. Transportation	-	-	-	-	469,700	76,544	175,660	9,771	-	-	280,590	1,012,265
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	-	-	-	-	162,561	-	2,768	2,780	-	-	80,151	248,260
X. Healthcare & Services	-	-	-	-	263,295	-	9,256	10,924	-	12	113,800	397,287
XI. Hotels, Gaming & Leisure Industry	-	-	-	-	187,991	-	1,242	222	-	1	28,614	218,070
XII. Real Estate	-	-	-	-	1,210,743	10,131	1,248	478	-	276	248,880	1,471,756
XIII. Public Sector	-	-	-	-	329,844	3,734,543	990	-	-	-	101,766	4,167,143
XIV. Financial Institutions	15,512	26	-	-	116,032	296,969	39	6,804	7,512	71,958	259,375	774,227
XV. Private Households	-	-	10,342,105	1,468,003	534,814	-	123	-	-	5	504,380	12,849,430
XVI. Other	-	-	-	-	31	-	-	-	-	-	14	45
Total	**15,512**	**26**	**10,342,105**	**1,468,003**	**6,021,133**	**4,156,802**	**288,141**	**162,003**	**7,512**	**94,018**	**4,446,011**	**27,001,266**

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								
I. Natural Resources & Commodities	-	-	-	-	540,569	-		34,196	49,281	-	486	321,929	946,461
II. Energy	-	-	-	-	525,265	29,249		6,487	3,995	-	35,559	398,546	999,101
III. Construction and building materials	-	-	-	-	325,058	-		14,122	10,092	-	111	584,973	934,356
IV. Automotive	-	-	-	-	194,999	-		8,597	6,939	-	126	299,422	510,083
V. Cyclical Consumer Products	-	-	-	-	215,021	-		7,169	13,177	-	36	148,552	383,955
VI. Non-Cyclical Consumer Products	-	-	-	-	370,365	9,356		9,235	14,444	-	117	153,484	557,001
VII. Machinery	-	-	-	-	202,234	-		9,045	19,346	-	192	147,721	378,538
VIII. Transportation	-	-	-	-	422,856	79,313		133,848	4,978	-	969	246,393	888,357
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	-	-	-	-	138,171	-		5,436	2,501	-	407	71,395	217,910
X. Healthcare & Services	-	-	-	-	179,847	10		6,848	5,946	-	3	102,769	295,423
XI. Hotels, Gaming & Leisure Industry	-	-	-	-	164,041	-		1,369	342	-	439	20,988	187,179
XII. Real Estate	-	-	-	-	958,253	10,131		904	321	-	1,777	317,176	1,288,562
XIII. Public Sector	-	-	-	-	290,938	3,604,711		1,324	-	-	-	82,017	3,978,990
XIV. Financial Institutions	9,658	50,025	-	-	51,829	180,124		37	4,313	7,913	24,076	186,567	514,542
XV. Private Households	-	-	9,361,376	1,422,176	501,785	-		153	-	-	32	493,360	11,778,882
XVI. Other	-	-	-	-	413	-		-	-	-	-	131	544
Total	**9,658**	**50,025**	**9,361,376**	**1,422,176**	**5,081,644**	**3,912,894**		**238,770**	**135,675**	**7,913**	**64,330**	**3,575,423**	**23,859,884**

Credit risk exposure by industry and risk category

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2022					
I. Natural Resources & Commodities	588,964	330,250	150,225	18,390	1,087,829
II. Energy	1,077,535	239,978	23,359	6,341	1,347,213
III. Construction and building materials	551,153	616,997	127,998	18,911	1,315,059
IV. Automotive	420,483	130,563	12,198	1,468	564,712
V. Cyclical Consumer Products	247,203	171,331	59,457	9,584	487,575
VI. Non-Cyclical Consumer Products	372,216	147,726	62,047	7,224	589,213
VII. Machinery	275,471	85,006	100,989	9,716	471,182
VIII. Transportation	646,413	314,886	47,400	3,566	1,012,265
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	127,317	92,978	25,624	2,341	248,260
X. Healthcare & Services	196,010	127,166	70,270	3,841	397,287
XI. Hotels, Gaming & Leisure Industry	107,012	69,556	30,459	11,043	218,070
XII. Real Estate	1,175,199	215,305	77,075	4,177	1,471,756
XIII. Public Sector	4,093,542	64,638	8,963	-	4,167,143
XIV. Financial Institutions	749,182	21,606	3,281	158	774,227
XV. Private Households	9,876,285	1,994,024	776,954	202,167	12,849,430
XVI. Other	24	12	8	1	45
Total	**20,504,009**	**4,622,022**	**1,576,307**	**298,928**	**27,001,266**

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2021					
I. Natural Resources & Commodities	743,151	109,207	70,693	23,409	946,460
II. Energy	763,442	208,477	25,904	1,276	999,099
III. Construction and building materials	659,637	182,355	81,670	10,694	934,356
IV. Automotive	477,575	5,937	12,909	13,662	510,083
V. Cyclical Consumer Products	309,661	34,988	24,205	15,100	383,954
VI. Non-Cyclical Consumer Products	484,522	40,936	27,322	4,221	557,001
VII. Machinery	293,746	37,991	43,834	2,967	378,538
VIII. Transportation	827,905	45,310	11,195	3,949	888,359
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	158,648	52,457	6,045	760	217,910
X. Healthcare & Services	222,540	33,339	31,001	8,542	295,422
XI. Hotels, Gaming & Leisure Industry	110,909	13,394	56,060	6,815	187,178
XII. Real Estate	891,199	55,729	339,937	1,697	1,288,562
XIII. Public Sector	3,927,116	49,184	2,690	-	3,978,990
XIV. Financial Institutions	499,145	1,750	13,568	80	514,543
XV. Private Households	10,314,362	822,846	435,243	206,431	11,778,882
XVI. Other	352	192	-	-	544
Total	**20,683,910**	**1,694,092**	**1,182,276**	**299,603**	**23,859,881**

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
31.12.2022						
I. Natural Resources & Commodities	473,256	552,907	16,647	2,376	42,643	1,087,829
II. Energy	210,531	936,170	6,342	-	194,170	1,347,213
III. Construction and building materials	952,664	128,460	17,398	8,513	208,024	1,315,059
IV. Automotive	461,632	50,532	1,421	59	51,068	564,712
V. Cyclical Consumer Products	385,605	80,865	6,659	3,627	10,819	487,575
VI. Non-Cyclical Consumer Products	502,882	55,948	6,710	817	22,856	589,213
VII. Machinery	370,942	41,556	7,792	6,503	44,389	471,182
VIII. Transportation	880,594	51,449	3,468	99	76,655	1,012,265
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	185,516	52,397	1,858	48	8,441	248,260
X. Healthcare & Services	278,851	110,361	3,311	593	4,171	397,287
XI. Hotels, Gaming & Leisure Industry	96,218	97,844	10,087	12,645	1,276	218,070
XII. Real Estate	927,901	451,715	4,162	86,903	1,075	1,471,756
XIII. Public Sector	4,161,152	600	-	-	5,391	4,167,143
XIV. Financial Institutions	650,571	224	157	25	123,250	774,227
XV. Private Households	12,194,796	451,031	199,664	3,934	5	12,849,430
XVI. Other	37	8	-	-	-	45
Total	**22,733,148**	**3,062,067**	**285,676**	**126,142**	**794,233**	**27,001,266**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
I. Natural Resources & Commodities	715,757	192,802	22,541	1,849	13,511	946,460
II. Energy	730,060	148,835	1,276	-	118,929	999,100
III. Construction and building materials	630,845	80,778	10,318	5,908	206,508	934,357
IV. Automotive	404,450	48,428	13,623	50	43,533	510,084
V. Cyclical Consumer Products	204,254	153,888	13,913	1,903	9,996	383,954
VI. Non-Cyclical Consumer Products	468,566	53,438	4,052	722	30,223	557,001
VII. Machinery	271,472	82,601	2,498	3,769	18,198	378,538
VIII. Transportation	740,779	73,067	3,812	159	70,541	888,358
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	152,828	57,277	713	47	7,045	217,910
X. Healthcare & Services	152,816	125,671	8,363	727	7,847	295,424
XI. Hotels, Gaming & Leisure Industry	38,209	126,628	6,414	14,484	1,444	187,179
XII. Real Estate	604,277	591,323	1,688	86,836	4,439	1,288,563
XIII. Public Sector	3,966,662	6,380	-	-	5,947	3,978,989
XIV. Financial Institutions	375,096	47,775	79	20	91,572	514,542
XV. Private Households	11,081,594	489,528	204,551	3,176	32	11,778,881
XVI. Other	472	72	-	-	-	544
Total	**20,538,137**	**2,278,491**	**293,841**	**119,650**	**629,765**	**23,859,884**

Credit risk exposure by region and financial instrument:

31.12.2022 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost: Loans and advances to banks	Loans and advances to customers: 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	-	1	10,286,770	1,458,035	5,935,650	3,769,971	288,141	103,604	960	21,996	4,122,439	25,987,567
Central and Eastern Europe	14,754	22	20,488	5,731	55,027	59,239	-	25,716	-	70,430	252,097	503,504
Austria	14,302	13	3,006	349	17	-	-	5,463	-	70,366	23,674	117,190
Czech Republic	445	9	5,425	359	54,852	59,239	-	15,914	-	64	214,428	350,735
Hungary	6	-	62	133	24	-	-	3,189	-	-	11,702	15,116
Croatia	-	-	-	63	1	-	-	426	-	-	1,031	1,521
Romania	1	-	708	215	16	-	-	694	-	-	1,026	2,660
Serbia	-	-	11,287	4,612	117	-	-	30	-	-	236	16,282
Other EU	549	1	1,970	227	26,211	322,513	-	26,557	3,058	1,592	61,924	444,602
Other industrialised countries	209	-	2,541	140	4,127	5,079	-	4,258	3,494	-	5,717	25,565
Emerging markets	-	2	30,336	3,870	118	-	-	1,868	-	-	3,834	40,028
Total	**15,512**	**26**	**10,342,105**	**1,468,003**	**6,021,133**	**4,156,802**	**288,141**	**162,003**	**7,512**	**94,018**	**4,446,011**	**27,001,266**

31.12.2021 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost: Loans and advances to banks	Loans and advances to customers: 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	3,354,608	23,098,585
Central and Eastern Europe	5,486	14	17,157	2,856	20,546	42,862	-	18,316	-	19,054	156,096	282,387
Austria	5,261	11	2,286	332	12	-	-	2,376	-	18,548	19,138	47,964
Czech Republic	-	3	4,626	289	20,432	42,862	-	12,103	-	479	125,254	206,048
Hungary	208	-	145	137	20	-	-	3,082	-	27	8,631	12,250
Croatia	14	-	-	53	1	-	-	406	-	-	1,454	1,928
Romania	3	-	495	120	17	-	-	342	-	-	1,292	2,269
Serbia	-	-	9,605	1,925	64	-	-	7	-	-	327	11,928
Other EU	3,961	1	2,127	186	28,616	306,707	-	23,385	-	4,928	56,879	426,790
Other industrialised countries	211	-	2,727	182	1,517	5,078	-	2,133	6,491	-	4,699	23,038
Emerging markets	-	2	22,364	2,055	80	-	-	1,445	-	-	3,144	29,090
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**	**3,575,426**	**23,859,890**

Credit risk exposure by region and risk category

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2022					
Slovakia	19,734,676	4,462,014	1,498,449	292,428	25,987,567
Central and Eastern Europe	372,246	97,071	28,416	5,771	503,504
Austria	113,566	1,799	1,824	1	117,190
Czech Republic	243,924	82,289	19,065	5,457	350,735
Hungary	5,579	5,392	4,099	46	15,116
Croatia	22	900	577	22	1,521
Romania	1,386	1,190	33	51	2,660
Serbia	7,769	5,501	2,818	194	16,282
Other EU	358,344	50,632	35,279	347	444,602
Other industrialised countries	15,996	2,710	6,700	159	25,565
Emerging markets	22,747	9,595	7,463	223	40,028
Total	**20,504,009**	**4,622,022**	**1,576,307**	**298,928**	**27,001,266**

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2021					
Slovakia	20,046,992	1,641,100	1,116,602	293,891	23,098,585
Central and Eastern Europe	234,944	18,444	23,376	5,619	282,383
Austria	44,736	4	3,218	3	47,961
Czech Republic	171,751	16,489	12,614	5,195	206,049
Hungary	7,273	13	4,935	29	12,250
Croatia	1,406	20	500	1	1,927
Romania	1,651	-	556	62	2,269
Serbia	8,127	1,918	1,553	329	11,927
Other EU	360,555	29,052	37,148	33	426,788
Other industrialised countries	20,524	9	2,498	7	23,038
Emerging markets	20,894	5,489	2,653	55	29,091
Total	**20,683,909**	**1,694,094**	**1,182,277**	**299,605**	**23,859,885**

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
31.12.2022						
Slovakia	21,939,664	2,992,039	279,994	125,242	650,628	25,987,567
Central and Eastern Europe	329,888	40,519	4,954	820	127,323	503,504
Austria	27,747	140	1	2	89,300	117,190
Czech Republic	268,212	39,289	4,650	807	37,777	350,735
Hungary	14,789	34	42	5	246	15,116
Croatia	1,499	-	22	-	-	1,521
Romania	2,595	14	49	2	-	2,660
Serbia	15,046	1,042	190	4	-	16,282
Other EU	409,883	22,024	347	79	12,269	444,602
Other industrialised countries	16,814	5,080	158	-	3,513	25,565
Emerging markets	36,899	2,405	223	1	500	40,028
Total	**22,733,148**	**3,062,067**	**285,676**	**126,142**	**794,233**	**27,001,266**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Slovakia	19,900,540	2,235,413	288,143	119,634	554,854	23,098,584
Central and Eastern Europe	212,531	12,526	5,602	17	51,705	282,381
Austria	15,172	352	3	2	32,432	47,961
Czech Republic	170,533	11,374	5,187	8	18,946	206,048
Hungary	11,866	27	25	3	327	12,248
Croatia	1,926	-	1	-	-	1,927
Romania	2,147	61	60	1	-	2,269
Serbia	10,887	712	326	3	-	11,928
Other EU	381,239	29,318	33	-	16,200	426,790
Other industrialised countries	16,261	264	7	-	6,505	23,037
Emerging markets	27,564	971	54	1	500	29,090
Total	**20,538,135**	**2,278,492**	**293,839**	**119,652**	**629,764**	**23,859,882**

Credit risk exposure according to impairment view

31.12.2022	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	-	-	-	-	-	-	15,512	-	15,512
Financial assets at amortised cost	341,895	317,202	13,312	7,195	2,543	1,642	21,365,783	280,391	21,988,069
Loans and advances to banks	25	25	-	-	-	-	1	-	26
Loans and advances to customers	341,870	317,177	13,312	7,195	2,543	1,642	17,208,980	280,391	17,831,241
of which: Lending for house purchase	109,910	93,774	8,648	4,274	1,933	1,280	10,093,026	139,169	10,342,105
of which: Credit for consumption	48,517	43,075	3,011	1,746	479	206	1,362,318	57,168	1,468,003
of which: Corporate loans and others	183,443	180,328	1,653	1,175	131	156	5,753,636	84,054	6,021,133
Debt securities	-	-	-	-	-	-	4,156,802	-	4,156,802
Finance lease receivables	4,432	3,605	594	228	5	-	279,461	4,248	288,141
Trade and other receivables	14,108	13,405	598	105	-	-	142,204	5,690	162,003
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	7,512	-	7,512
Financial assets - held for trading	-	-	-	-	-	-	77,139	-	77,139
Positive fair value of derivatives	-	-	-	-	-	-	16,879	-	16,879
Total credit risk exposure on-balance	**360,435**	**334,212**	**14,504**	**7,528**	**2,548**	**1,642**	**21,904,490**	**290,329**	**22,555,255**
Off-balance	-	-	-	-	-	-	4,439,510	6,501	4,446,011
Total credit risk exposure	**360,435**	**334,212**	**14,504**	**7,528**	**2,548**	**1,642**	**26,344,000**	**296,830**	**27,001,266**

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	-	-	-	-	-	-	3,570,942	4,483	3,575,889
Total credit risk exposure	**373,041**	**345,311**	**15,570**	**7,291**	**3,179**	**1,688**	**23,187,242**	**299,604**	**23,859,889**

Credit quality for exposures, which are neither past due non impaired

EUR ths.	Low Risk	Management attention	Substandard	Non-performing	Total
31.12.2022					
Cash and cash balances - other demand deposits	15,512	-	-	-	15,512
Financial assets at amortised cost	17,082,266	3,282,978	1,000,539	-	21,365,783
Loans and advances to banks	1	-	-	-	1
Loans and advances to customers	12,925,987	3,282,464	1,000,529	-	17,208,980
of which: Lending for house purchase	8,226,385	1,422,905	443,736	-	10,093,026
of which: Credit for consumption	766,496	447,843	147,979	-	1,362,318
of which: Corporate loans and others	3,933,106	1,411,716	408,814	-	5,753,636
Debt securities	4,156,278	514	10	-	4,156,802
Finance lease receivables	124,017	141,976	13,468	-	279,461
Trade and other receivables	67,290	38,057	36,857	-	142,204
Non-trading financial assets at fair value through profit or loss - 'Debt securities	6,552	960	-	-	7,512
Derivatives - held for trading	55,431	21,694	13	1	77,139
Positive fair value of derivatives - hedge accounting	16,879	-	-	-	16,879
Total credit risk exposure on-balance	**17,367,947**	**3,485,665**	**1,050,877**	**1**	**21,904,490**
Off-balance	3,069,998	1,072,460	294,955	2,097	4,439,510
Total credit risk exposure	**20,437,945**	**4,558,125**	**1,345,832**	**2,098**	**26,344,000**

EUR ths.	Low Risk	Managemen t 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	3,026,136	305,761	239,045	-	3,570,942
Total credit risk exposure	**20,544,190**	**1,637,995**	**1,005,059**	**-**	**23,187,244**

Credit risk exposure by Basel 3 exposure class and financial instrument

EUR ths.	Sovereigns	Institutions	Corporates	Retail	Total
31.12.2022					
Cash and cash balances - other demand deposits	-	15,512	-	-	15,512
Financial assets at amortised cost	4,071,807	296,472	4,873,825	12,745,965	21,988,069
Loans and advances to banks	-	26	-	-	26
Loans and advances to customers	337,264	-	4,748,012	12,745,965	17,831,241
of which: Lending for house purchase	-	-	-	10,342,105	10,342,105
of which: Credit for consumption	-	-	-	1,468,003	1,468,003
of which: Corporate loans and others	337,264	-	4,748,012	935,857	6,021,133
Debt securities	3,734,543	296,446	125,813	-	4,156,802
Finance lease receivables	1,062	-	275,972	11,107	288,141
Trade and other receivables	1,822	-	159,930	251	162,003
Non-trading financial assets at fair value through profit or loss - Debt securities	-	-	7,512	-	7,512
Derivatives - held for trading	-	55,079	22,055	5	77,139
Positive fair value of derivatives - hedge accounting	-	16,879	-	-	16,879
Total credit risk exposure on-balance	**4,074,691**	**383,942**	**5,339,294**	**12,757,328**	**22,555,255**
Off-balance	154,096	34,228	3,632,605	625,082	4,446,011
Total credit risk exposure	**4,228,787**	**418,170**	**8,971,899**	**13,382,410**	**27,001,266**

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	80,928	93,172	2,798,284	603,042	3,575,426
Total credit risk exposure	**3,972,902**	**356,471**	**7,284,945**	**12,245,572**	**23,859,890**

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

	Threshold interval (x times)	
	Min	Max
31.12.2022	1.13	4.08
31.12.2021	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 has introduced additional portfolio level SICR assessment criteria due to the war in Ukraine (implemented in 2022) and related economic impacts. Similarly, from 2020 till Q3-2022 portfolio assessment due to the Covid-19 pandemic was established. For more details refer to “Collective assessment” in the next chapter.

Considering the war in Ukraine, Bank started with a portfolio screening to identify customers affected by the secondary effects of the geopolitical risk. The Bank has only very limited exposure towards the affected region with only several clients with exposure.

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 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. The main indicator of the estimated economic development is the GDP. In addition, economic effects of the war in Ukraine led to increases of the inflation and/or the interest rates. Erste Group adjusted macro-shift models to reflect expected effects of those into credit risk parameters. In the table below we are disclosing expected development of inflation or interest rates in our region. Disclosures are based on the relevancy in the macro-shift model.

Group reviewed the FLI in the fourth quarter of 2022 according to the disclosed forecasts for baseline, downside and upside scenarios. Erste Group decided to keep 40% probability of occurrence assigned to baseline forecast due to the unstable development of the geopolitical situation – war in Ukraine.

In December 2021, the specific situation of the Covid-19 pandemic was addressed in FLI via the lagging of the macroeconomic variables in credit risk parameters, i.e. variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Considering the improvement of the situation (it is expected that new variants, including omicron, are more contagious, but with lower hospitalisation rate), Erste Group decided to update FLI based on the forecasts for years 2023-2025, i.e., no lagging is applied; however macro-variables' historical development was adjusted for the Covid period (2020-2021) in order to reflect compensatory effect of the state support measures.

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

31.12.2022

Parameter	Scenario	Weight	2022	2023	2024	2025
GDP - real growth (in %)	Macro down	59%	1.8	-4.6	-2.2	1.1
	Macro base	40%	1.8	1.5	2.6	2.0
	Macro up	1%	1.8	3.6	4.7	4.1
GDP - Nominal growth (in %)	Macro down	59%	7.0	5.1	4.4	3.9
	Macro base	40%	10.0	8.0	7.3	6.8
	Macro up	1%	12.9	11.0	10.3	9.8
Unemployment rate (in %)	Macro down	59%	6.3	8.4	8.8	8.5
	Macro base	40%	6.3	6.5	6.5	6.3
	Macro up	1%	6.3	5.1	5.1	4.9
Inflation - CPI (in %)	Macro down	59%	12.7	11.4	6.8	4.8
	Macro base	40%	12.7	9.3	4.5	3.5
	Macro up	1%	12.7	8.0	3.2	2.2
Unemployment rate - shift 12 months (in %)	Macro down	59%	7.0	6.3	8.4	8.8
	Macro base	40%	7.0	6.3	6.5	6.5
	Macro up	1%	7.0	6.3	5.1	5.1
Real Wage growth (in %)	Macro down	59%	-3.7	-3.6	0.6	-0.3
	Macro base	40%	-3.7	-2.3	1.9	1.0
	Macro up	1%	-3.7	-0.9	3.3	2.4

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

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.

In the Risk Materiality Assessment, climate and environment-related risks are overall assessed as medium and therefore classified as material, but they are expected to generate more impact on credit risk in the medium to long run. Therefore, in the short-term Group did not include additional overlays for ESG risks into ECL calculation for year 2022.

Collective assessment

As of December 2022, in addition to standard SICR assessment, Bank applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by the war in Ukraine and the energy crisis. Till fourth quarter of 2022, Bank had in place overlays addressing Covid-19 as well. Improved pandemic situation over 2022 enabled discontinuation of Covid-19 related overlays.

Covid-19 effect

The Covid-19 pandemic caused 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 in all of Group's core markets to support citizens and companies.

Effect on customers

Immediately upon the crisis showed severe economic impacts in our region (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support Groups´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.

Effect on business

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". The categorization was 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 was 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 could 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 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 had a significant impact on their businesses, e.g. Hotels, Manufacturing. In Q4 2022 the reassessment led to complete discontinuation of Industry heat map and all staging rules introduced due to Covid-19 pandemic.

Effect on Expected Credit Loss

The Group kept its model for ECL (expected credit loss) consistent with prior periods. The Group 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 Group was using macro shift translation models which the Group 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 Group 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 Group used three scenarios as a basis for the credit risk parameters' shift incorporation. The Baseline scenario was constructed by the Erste Group macro research team which leverages on the network of local macroeconomic experts in our core markets. The baseline scenario was generally aligned with other available external forecasts (e.g.: ECB, IMF, EU Commission).

The Group 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 Group decided to implement COVID-19 SICR overlays. They followed standard SICR assessment process and identified 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 Group used 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 led to COVID-19 SICR overlay assessment.

The Group established a COVID-19 flag in the systems. The COVID-19 flag indicated any supporting measure granted to the customer irrespective whether legal or private moratorium, EBA guideline compliant or not. All these flags were considered as relevant and were 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 needed the measure to cover a worsened situation, the Group set 1Y IFRS PD threshold of 250 bps as second negative information (i.e. if the Group had only industry heat map negative information or COVID-19 flag as the negative information). In case there existed already a combination of two negative information, the Group did 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 was 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 were 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)

In 2020 the Group created about EUR 47 million provisions applying the Covid-19 SICR overlay rules.

After moratoria ended for clients, the Group still kept SICR overlays active for six months in order to compensate for lacking information. In case of private individuals we addressed via these overlays mainly lacking information for the score-card variables on the delinquency.

In case of private individuals the Group already saw release of ECL where the 6 month period after moratoria expiration already passed. Most of the moratoria expired in January and February 2021 and the Group released approximately EUR 8 million of provisions in Retail and EUR 16 million in Corporate portfolio.

Developments in 2022

The Industry heatmap categorizations were regularly reviewed on a 12-month rolling forecast basis to take current developments into account. The last review was done in October 2022 and led to discontinuation of this industries' classification due to the overall stabilization of the Covid-19 situation and its effects. This caused a release of ECL in amount of EUR 4.9 million in 2022.

War in Ukraine

The Ukraine-Russia war, intensified challenges for both risk and business divisions: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry strategies.

In June 2022, Group implemented rules for stage overlays due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. These rules were defined on top of existing criteria mentioned in the section 'Significant increase in credit risk determination – Qualitative criteria' (Stage 2 identification based on the early warning signal and negative information about geopolitical risk in March 2022). The table below shows volumes for the cyclical industries category.

In addition to cyclical industries, from September 2022 Group has introduced additional Energy stage overlay due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were identified. Effects of gas rationing/shortage on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected. All companies belonging to the Energy sector as the whole industry can potentially be affected by the massive shortages and distortions in the current energy market: price volatility, margin calls, price caps, adverse weather environment for hydro power, fixed off-take contracts (putting off-takers at risk when stopped and / or limiting producers of renewable energy profiting from the higher prices), exceptional taxes, etc. All customers belonging to these industries / sub-industries were migrated to Stage 2.

After discontinuation of Covid-19 overlays we are currently applying two sets of overlays mentioned above:

1. Cyclical overlays – exposures with Cyclical industry + one-year IFRS PD > 250bps
2. Energy overlays – exposures with Energy industry (II. Energy industry + sub-industries Chemicals and Metals from I. Natural resources & commodities industry).

The overlays are exclusive meaning only one of them can be applied at the time and the priority is cyclical overlays are evaluated first and energy overlays second.

The table below shows volumes for the cyclical industries category and energy dependent (sub)industries.

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – cyclical industries

31.12.2022 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
I. Natural Resources & Commodities	473,256	552,908	16,648	2,378	1,045,190	42,643	1,087,833	20,654
of which cyclical	134,497	410,905	1,040	1,240	547,681	36,021	583,702	5,928
II. Energy	210,531	936,170	6,342	-	1,153,043	194,171	1,347,214	23,048
III. Construction and building materials	952,664	128,460	17,398	8,513	1,107,034	208,025	1,315,059	20,690
of which cyclical	834,059	95,429	8,824	8,403	946,716	194,063	1,140,779	12,005
IV. Automotive	461,632	50,532	1,421	59	513,644	51,068	564,712	3,147
of which cyclical	441,694	48,946	611	48	491,300	50,418	541,718	2,219
V. Cyclical Consumer Products	385,604	80,865	6,659	3,627	476,756	10,819	487,575	12,918
VI. Non-Cyclical Consumer Products	502,882	55,948	6,710	817	566,356	22,856	589,212	8,056
VII. Machinery	370,941	41,556	7,792	6,503	426,792	44,389	471,181	10,887
of which cyclical	286,461	34,890	1,659	5,445	328,455	19,557	348,012	5,174
VIII. Transportation	880,594	51,449	3,468	99	935,610	76,655	1,012,265	6,117
of which cyclical	120,621	17,351	52	-	138,023	1,112	139,135	463
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	185,516	52,397	1,858	48	239,818	8,441	248,259	5,724
of which cyclical	36,835	5,823	92	47	42,797	201	42,998	348
X. Healthcare & Services	278,851	110,361	3,311	593	393,116	4,172	397,288	11,089
of which cyclical	72,308	93,772	2,228	424	168,731	1,557	170,288	8,338
XI. Hotels, Gaming & Leisure Industry	96,218	97,844	10,087	12,645	216,795	1,275	218,070	15,484
of which cyclical	96,205	97,844	10,087	12,645	216,782	1,275	218,057	15,484
XII. Real Estate	927,901	451,715	4,162	86,902	1,470,680	1,074	1,471,754	58,362
of which cyclical	835,401	436,309	3,396	86,902	1,362,007	276	1,362,283	54,872
XIII. Public Sector	4,161,152	600	-	-	4,161,752	5,391	4,167,143	1,159
XIV. Financial Institutions	650,571	224	157	26	650,977	123,250	774,227	725
XV. Private Households	12,194,797	451,031	199,664	3,934	12,849,425	5	12,849,430	179,299
XVI. Other	36	8	-	-	44	-	44	2
Total	**22,733,146**	**3,062,068**	**285,677**	**126,144**	**26,207,032**	**794,234**	**27,001,266**	**377,361**
of which cyclical (including Cyclical Consumer Products)	**3,243,686**	**1,322,134**	**34,648**	**118,782**	**4,719,249**	**315,298**	**5,034,548**	**117,750**

31.12.2021 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
I. Natural Resources & Commodities	715,757	192,802	22,541	1,849	932,949	13,511	946,462	26,624
of which cyclical	408,596	80,502	1,569	409	491,076	11,002	502,079	5,321
II. Energy	730,060	148,835	1,276	-	880,172	118,929	999,101	20,978
III. Construction and building materials	630,845	80,778	10,318	5,908	727,849	206,508	934,358	15,242
of which cyclical	510,493	56,854	8,390	5,778	581,514	189,715	771,230	11,414
IV. Automotive	404,450	48,428	13,623	50	466,551	43,533	510,084	6,447
of which cyclical	395,089	45,011	12,662	39	452,801	42,883	495,683	5,311
V. Cyclical Consumer Products	204,254	153,888	13,913	1,903	373,958	9,996	383,955	17,447
VI. Non-Cyclical Consumer Products	468,566	53,438	4,052	722	526,778	30,223	557,001	7,505
VII. Machinery	271,472	82,601	2,498	3,769	360,340	18,198	378,537	6,877
of which cyclical	222,317	66,541	2,474	3,769	295,102	13,045	308,147	6,225
VIII. Transportation	740,779	73,067	3,812	159	817,818	70,541	888,359	6,836
of which cyclical	120,562	32,135	53	-	152,751	100	152,851	789
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	152,828	57,277	713	47	210,866	7,045	217,911	3,446
of which cyclical	18,011	40,843	368	47	59,270	101	59,371	1,844
X. Healthcare & Services	152,816	125,671	8,363	727	287,576	7,847	295,423	10,210
of which cyclical	27,584	59,633	6,229	503	93,949	587	94,536	5,120
XI. Hotels, Gaming & Leisure Industry	38,209	126,628	6,414	14,484	185,735	1,444	187,179	9,817
of which cyclical	38,105	126,628	6,414	14,484	185,632	1,444	187,076	9,817
XII. Real Estate	604,277	591,323	1,688	86,836	1,284,123	4,439	1,288,562	54,182
of which cyclical	551,277	572,219	401	86,827	1,210,724	2,904	1,213,628	50,425
XIII. Public Sector	3,966,662	6,380	-	-	3,973,042	5,947	3,978,989	1,446
XIV. Financial Institutions	375,096	47,775	79	20	422,972	91,572	514,543	520
XV. Private Households	11,081,594	489,528	204,551	3,176	11,778,850	32	11,778,882	181,552
XVI. Other	472	72	-	-	544	-	544	6
Total	20,538,137	2,278,491	293,841	119,650	23,230,123	629,765	23,859,890	369,135
of which cyclical (including Cyclical Consumer Products)	**2,496,289**	**1,234,254**	**52,473**	**113,759**	**3,896,775**	**271,777**	**4,168,552**	**113,712**

Total exposure in Stage 2 of cyclical industries as of December 2022 is EUR 1,322 million. After applying rule for one-year IFRS PD the exposure relevant for cyclical overlays is EUR 578 million. Total exposure in Stage 2 of energy industries as of December 2022 is EUR 1,461 million. As no further rules are applied, this is also the amount in energy overlays. With these overlay rules for cyclical and energy overlays we allocated additional ECL in the amount of EUR 10 million for cyclical overlays and EUR 8 million for energy overlays. Total ECL creation due to overlay rules in 2022 was EUR 18 million from the total impairment costs of EUR 32.1 million.

Sensitivity of ECL overlays

The Bank has calculated potential effects of various scenarios on ECL. We focused on change in PD parameter in both cyclical and energy overlays and change in PD threshold for cyclical overlays. The results are presented in the following table.

Sensitivity of ECL overlays

31.12.2022	Scenario PD + 10%				Scenario PD threshold 0bps			
EUR ths.	Credit risk exposure	CLA	CLA stress	Δ(CLA - CLA stress)	Credit risk exposure	CLA	CLA stress	Δ(CLA - CLA stress)
I. Natural Resources & Commodities	526,169	6,310	6,892	582	531,385	6,345	6,475	130
of which Cyclical	21,704	1,188	1,286	98	414,925	4,372	4,502	130
of which Energy	504,464	5,122	5,605	484	116,460	1,973	1,973	-
II. Energy	934,974	19,670	21,628	1,957	934,974	19,670	19,670	-
of which Energy	934,974	19,670	21,628	1,957	934,974	19,670	19,670	-
III. Construction and building materials	72,528	4,322	4,659	336	578,786	5,514	8,992	3,478
of which Cyclical	72,528	4,322	4,659	336	578,786	5,514	8,992	3,478
IV. Automotive	6,559	497	535	39	464,768	1,724	3,282	1,558
of which Cyclical	6,559	497	535	39	464,768	1,724	3,282	1,558
V. Cyclical Consumer Products	44,759	3,262	3,450	188	426,737	4,697	8,687	3,991
of which Cyclical	44,759	3,262	3,450	188	426,737	4,697	8,687	3,991
VII. Machinery	32,384	2,510	2,734	224	271,873	2,841	4,780	1,939
of which Cyclical	32,384	2,510	2,734	224	271,873	2,841	4,780	1,939
VIII. Transportation	191	22	22	-	129,848	425	1,831	1,405
of which Cyclical	191	22	22	-	129,848	425	1,831	1,405
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	823	78	81	3	38,596	230	680	450
of which Cyclical	823	78	81	3	38,596	230	680	450
X. Healthcare & Services	90,441	6,764	7,393	629	154,615	7,099	8,047	948
of which Cyclical	90,441	6,764	7,393	629	154,615	7,099	8,047	948
XI. Hotels, Gaming & Leisure Industry	73,121	7,130	7,784	654	193,024	7,885	9,212	1,327
of which Cyclical	73,121	7,130	7,784	654	193,024	7,885	9,212	1,327
XII. Real Estate	236,100	15,794	17,323	1,529	1,270,785	25,783	32,563	6,780
of which Cyclical	236,100	15,794	17,323	1,529	1,270,785	25,783	32,563	6,780
Total	**2,018,049**	**66,358**	**72,499**	**6,141**	**4,995,391**	**82,213**	**104,220**	**22,007**
of which Cyclical (including Cyclical Consumer Products)	**578,610**	**41,567**	**45,266**	**3,700**	**3,943,957**	**60,570**	**82,577**	**22,007**
of which Energy	**1,439,439**	**24,792**	**27,233**	**2,441**	**1,051,434**	**21,643**	**21,643**	**-**

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.

Credit risk exposure, forbearance exposure and credit loss allowances

EUR ths.	Loans and advances	Debt securities	Other positions	Off-balance	Total credit risk exposure
31.12.2022					
Gross exposure	18,281,411	4,164,314	109,530	4,446,011	27,001,266
thereof gross forborne exposure	388,082	-	-	6,814	394,896
Performing exposure	17,991,082	4,164,314	109,529	4,437,413	26,702,338
thereof performing forborne exposure	283,280	-	-	6,459	289,739
Credit loss allowances for performing exposure	179,353	1,903	-	20,177	201,433
thereof credit loss allowances for performing forborne exposure	13,037	-	-	80	13,117
Non-performing exposure	290,329	-	1	8,598	298,928
thereof non-performing forborne exposure	104,801	-	-	355	105,156
Credit loss allowances for non-performing exposure	172,765	-	-	3,162	175,927
thereof credit loss allowances for non-performing forborne exposure	53,315	-	-	3	53,318

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	3,575,425	23,859,886
thereof gross forborne exposure	455,255	-	121	55,128	510,503
Performing exposure	15,994,547	3,920,807	73,986	3,570,942	23,560,281
thereof performing forborne exposure	357,990	-	120	54,622	412,733
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	-	-	4,483	299,605
thereof non-performing forborne exposure	97,264	-	-	506	97,770
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

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

31.12.2022			Collateralised by					IFRS 9 impairment relevant		
EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Guarantees	Real estate	Other	Collateral total	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Cash and cash balances - other demand deposits	15,512	-	-	-	-	-	15,512	15,512	-	-
Financial assets at amortised cost	21,988,069	144,735	236,430	10,880,964	370,547	11,487,940	10,500,129	21,365,783	341,895	280,391
Loans and advances to banks	26	-	12	-	-	12	14	1	25	-
Loans and advances to customers	17,831,241	144,735	226,365	10,880,964	370,547	11,477,875	6,353,366	17,208,980	341,870	280,391
of which: Lending for house purchase	10,342,105	128,134	-	9,533,711	25	9,533,736	808,369	10,093,026	109,910	139,169
of which: Credit for consumption	1,468,003	280	-	291	-	291	1,467,712	1,362,318	48,517	57,168
of which: Corporate loans and others	6,021,133	16,321	226,365	1,346,962	370,522	1,943,848	4,077,285	5,753,636	183,443	84,054
Debt securities	4,156,802	-	10,053	-	-	10,053	4,146,749	4,156,802	-	-
Finance lease receivables	288,141	1,781	-	-	195,354	195,354	92,787	279,461	4,432	4,248
Trade and other receivables	162,003	-	-	-	-	-	162,003	142,204	14,108	5,690
Non-trading financial assets at fair value through profit or loss - 'Debt securities	7,512	-	-	-	-	-	7,512	-	-	-
Financial assets - held for trading	77,139	-	-	-	-	-	77,139	-	-	-
Positive fair value of derivatives	16,879	-	-	-	-	-	16,879	-	-	-
Total credit risk exposure on-balance	**22,555,255**	**146,516**	**236,430**	**10,880,964**	**565,901**	**11,683,294**	**10,871,961**	**21,802,960**	**360,435**	**290,329**
Off-balance	4,446,011	408	-	115,757	112,269	228,026	4,217,985	3,746,807	-	6,501
Total credit risk exposure	**27,001,266**	**146,924**	**236,430**	**10,996,721**	**678,170**	**11,911,320**	**15,089,946**	**25,549,767**	**360,435**	**296,830**

31.12.2021 EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by: Guarantees	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 impaired	IFRS 9 impairment relevant: 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	3,575,425	144	-	96,756	122,426	219,182	3,356,243	3,013,473	-	4,430
Total credit risk exposure	**23,859,889**	**151,897**	**242,473**	**8,772,739**	**506,022**	**9,521,233**	**14,338,652**	**22,557,532**	**373,041**	**299,551**

The collateral attributable to exposures that are credit-impaired at 31 December 2022 amounts to EUR 146.5 million (2021: EUR 151.9 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 %	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Cash and cash balances	2,483,999	899,436	10.73%	3.79%
Loans and receivables to customers	562,736	552,140	2.43%	2.33%
Securities portfolio	3,264,708	3,377,414	14.10%	14.22%
Total	**6,311,443**	**4,828,990**	**27.26%**	**20.34%**

The following table presents a breakdown of state debt securities held by the Group per portfolio and type of security:

EUR ths.	31.12.2021	31.12.2022
Financial assets at amortised cost	3,264,708	3,377,414
State bonds denominated in EUR	3,194,283	3,377,414
State bonds denominated in USD	70,425	-
Total	**3,264,708**	**3,377,414**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with negative outlook (since 05 August 2022).

25. 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 statement of financial position 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 behaviour 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 statement of financial position) is quantified by Economic Value of Equity (change in statement of financial position 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.	31.12.2021	31.12.2022
Banking book - ALM portfolio	11,700	14,993
Banking book - Corporate portfolio	718	1,062
Banking book - ALCO portfolio	181	325
Trading book	7	22

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 behaviour 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.	31.12.2021	31.12.2022
parallel down scenario	(35,990)	9,357
parallel up scenario	42,675	(106,611)
flattener scenario	(154,497)	(126,449)
steepener scenario	109,694	51,012
short down scenario	50,369	73,087
short up scenario	(100,661)	(140,115)

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 statement of financial position.

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 4.6 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 statement of financial position and forecasted earnings. Decisions are based on statement of financial position 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 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.

26. 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 2022, customer deposits remained the primary source of funding for the Bank. The growth in loan volume was substantially higher than inflows of customer deposits. The gap was funded chiefly by own issuances. 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 1 944 million in bonds in 2022 (2021: EUR 312 million) out of which 1 000 million as covered bond, EUR 500 million as retained covered bonds and EUR 444 million as senior bonds.

The Bank's total TLTRO participation at the end of 2022 was EUR 1 billion (2021: EUR 2.75 billion). EUR 1.75 billion participation in TLTRO was early repaid in November 2022.

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
- name crisis – over 1 months
- market crisis – over 6 months
- combined name and market crisis – over 3 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 0.75 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 770 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 2021 and 31 December 2022:

EUR ths.	31.12.2021	31.12.2022
Liquidity buffer	4,327,590	4,322,139
Net liquidity outflow	2,282,137	2,672,881
Liquidity coverage ratio	189.63%	161.70%

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
31.12.2022					
Cash, excess reserve	1,056	-	-	-	-
Liquid assets	3,288	-	(361)	(10)	(60)
Other central bank eligible assets	-	1,553	(3)	(3)	(5)
Thereof retained covered bonds	-	1,428	-	-	-
Thereof credit claims	-	125	(3)	(3)	(5)
Counterbalancing capacity	**4,344**	**1,553**	**(364)**	**(13)**	**(65)**

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)**

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:

EUR ths.	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
31.12.2022						
Non-derivative liabilities	**21,075,889**	**21,284,045**	**15,630,485**	**1,383,527**	**3,404,396**	**865,637**
Deposits by banks	1,173,628	1,226,304	38,783	24,188	1,132,491	30,842
Customer deposits	16,912,755	16,914,691	15,591,641	1,307,255	15,795	-
Debt securities in issue	2,936,686	3,087,461	61	45,401	2,224,676	817,323
Subordinated liabilities	52,820	55,589	-	6,683	31,434	17,472
Derivative liabilities	**176,799**	**50,271**	**774**	**18,726**	**30,752**	**19**
Derivatives liabilities with gross Cash Flow (net)	176,799	50,271	774	18,726	30,752	19
Outflows	-	344,755	106,241	108,588	123,678	6,248
Inflows	-	(294,484)	(105,467)	(89,862)	(92,926)	(6,229)
Contingent liabilities	**2,507,524**	**2,507,524**	**2,507,524**	**-**	**-**	**-**
Financial guarantees	15,070	15,070	15,070	-	-	-
Commitments	2,492,454	2,492,454	2,492,454	-	-	-
Other financial liabilities	113,790	113,790	113,790	-	-	-
Lease liabilities	21,197	21,197	1,283	5,678	13,798	438
Total	**23,895,199**	**23,976,827**	**18,253,856**	**1,407,931**	**3,448,946**	**866,094**

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	36,526	36,526	36,526	-	-	-
Lease liabilities	20,051	20,051	707	5,454	13,232	658
Total	**23,232,306**	**23,197,402**	**17,807,840**	**805,018**	**4,244,447**	**340,097**

As of year-end 2022, the currency composition of the non-derivative liabilities consisted mainly by EUR (approximately 99%).

27. 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 operational risk 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.

NON-CURRENT ASSETS AND OTHER INVESTMENTS

28. PROPERTY, EQUIPMENT, INVESTMENT PROPERTIES AND RIGHT OF USE ASSETS

Property and equipment

Property and equipment are 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 statement of financial position 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.

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 1 January 2021	**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 December 2021	**241,317**	**53,637**	**58,950**	**36,673**	**390,577**	**6,164**
Additions	7,606	3,520	7,792	8,114	27,032	-
Disposals	(9,507)	(4,640)	(10,309)	(1,886)	(26,342)	(126)
Reclassification	(705)	-	-	-	(705)	705
Balance as at 31 December 2022	**238,711**	**52,517**	**56,433**	**42,901**	**390,562**	**6,743**

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 1 January 2021	**(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 December 2021	**(140,607)**	**(45,551)**	**(42,192)**	**(16,673)**	**(245,023)**	**(4,647)**
Amortisation and depreciation	(10,262)	(2,642)	(6,348)	(7,431)	(26,683)	(214)
Disposals	7,362	4,300	10,309	1,887	23,858	81
Disposal of subsidiaries	623	-	-	-	623	-
Impairment	(204)	-	-	-	(204)	(3)
Reversal of impairment	2,401	-	-	-	2,401	14
Reclassification	521	-	-	-	521	(521)
Balance as at 31 December 2022	**(140,166)**	**(43,893)**	**(38,231)**	**(22,217)**	**(244,507)**	**(5,290)**

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
Balance as at 31 December 2021	**100,710**	**8,086**	**16,758**	**20,000**	**145,554**	**1,517**
Balance as at 31 December 2022	**98,545**	**8,624**	**18,202**	**20,684**	**146,055**	**1,453**

In 2022, land and buildings were impaired to the amount of EUR 7.7 million (2021: EUR 10.6 million).

Cost of property and equipment, which are fully depreciated but still used by the Group as at 31 December 2022 amounted EUR 65.4 million (2021: EUR 71.5 million) and includes various types of tangible fixed assets.

As at 31 December 2022 the Group owned property and equipment not yet put in use in the amount of EUR 4.7 million (2021: EUR 0.7 million).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

29. 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 property and equipment	Useful lives in years
Computer 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 28 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 1 January 2021	**247,659**	**36,425**	**2,722**	**286,806**
Additions	7,447	-	-	7,447
Disposals	(159)	-	-	(159)
Balance as at 31 December 2021	**254,947**	**36,425**	**2,722**	**294,094**
Additions	6,618	-	-	6,618
Balance as at 31 December 2022	**261,565**	**36,425**	**2,722**	**300,712**

Accumulated depreciation

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2021	**(228,970)**	**(36,225)**	**(2,664)**	**(267,859)**
Amortisation and depreciation	(7,277)	(147)	(23)	(7,447)
Disposals	159	-	-	159
Balance as at 31 December 2021	**(236,088)**	**(36,372)**	**(2,687)**	**(275,147)**
Amortisation and depreciation	(7,622)	(53)	(22)	(7,697)
Balance as at 31 December 2022	**(243,710)**	**(36,425)**	**(2,709)**	**(282,844)**

Carrying amounts

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2021	**18,858**	**53**	**35**	**18,946**
Balance as at 31 December 2022	**17,854**	**-**	**14**	**17,868**

Cost of intangible assets, which are fully depreciated but still used by the Group as at 31 December 2022 amounted EUR 261.6 million (2021: EUR 253.7 million).

As at 31 December 2022 the Group owned intangible assets not yet put in use in the amount of EUR 3.1 million (2021: EUR 3.3 million).

During the year 2022 the Group put in use upgrade of the core banking system, which amounted EUR 6.5 million (2021: EUR 6.0 million).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

30. OTHER ASSETS

EUR ths.	31.12.2021	31.12.2022
Client settlement	28,565	10,742
Personnel balances	193	716
State budget, social and health insurance, taxes	-	911
Sundry assets	6,934	13,186
Thereof: deferred cost	6,163	11,165
Other assets	**35,692**	**25,555**

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.	31.12.2021	31.12.2022
Outstanding lease payments	253,955	312,042
Gross investment	**253,955**	**312,042**
Unrealised financial income	(15,185)	(23,900)
Net investment	**238,770**	**288,142**
Present value of outstanding lease payments	**238,770**	**288,142**

Maturity analysis by residual maturities

EUR ths.	31.12.2021		31.12.2022	
	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	72,632	68,448	64,289	58,512
1-2 years	46,436	43,317	54,139	49,523
2-3 years	35,350	33,014	47,771	44,158
3-4 years	27,929	26,164	35,269	32,549
4-5 years	20,842	19,561	25,917	23,796
> 5 years	50,766	48,267	84,657	79,603
Total	**253,955**	**238,771**	**312,042**	**288,141**

During 2022, the Group recognised interest income on finance lease receivables in the amount of EUR 5.3 million (2021: EUR 5.0 million). Gains/losses from derecognition of finance lease receivables are recognized in line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

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 31.12.2022											
General governments	993	70	-	-	1,063	(1)	-	-	-	(1)	1,062
Other financial corporations	39	-	-	-	39	-	-	-	-	-	39
Non-financial corporations	248,072	32,608	3,951	247	284,878	(389)	(502)	(2,596)	(11)	(3,498)	281,380
Households	1,526	367	268	-	2,161	(4)	(7)	(131)	-	(142)	2,019
Total	**250,630**	**33,045**	**4,219**	**247**	**288,141**	**(394)**	**(509)**	**(2,727)**	**(11)**	**(3,641)**	**284,500**

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**

Movement in credit loss allowances

Eur ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	(1,244)	(134)	3	142	839	-	(395)
Stage 2	(506)	-	3	(204)	197	-	(510)
Stage 3	(3,586)	-	692	(86)	(348)	602	(2,726)
POCI	-	-	73	-	(84)	-	(11)
Total	**(5,336)**	**(134)**	**771**	**(148)**	**604**	**602**	**(3,641)**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	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)**

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 2022 or initial recognition date to Stages 2 or 3 as of 31 December 2022 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 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 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages

EUR ths.	2021	2022
Transfers between Stage 1 and Stage 2	**48,445**	**31,653**
To Stage 2 from Stage 1	5,463	24,944
To Stage 1 from Stage 2	42,982	6,709
Transfers between Stage 2 and Stage 3	**276**	**393**
To Stage 3 from Stage 2	246	110
To Stage 2 from Stage 3	30	283
Transfers between Stage 1 and Stage 3	**533**	**1,199**
To Stage 3 from Stage 1	465	1,170
To Stage 1 from Stage 3	68	29

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 2022 amounts to EUR 109.3 million (2021: EUR 53.5 million). The gross carrying amounts of the finance lease receivables that were held at 1 January 2022 and fully de-recognized during the year 2022 amounts to EUR 2.6 million (2021: EUR 0.4 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 statement of financial position as part of 'Property and equipment, right-of-use assets'.

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. In the statement of financial position, the lease liabilities are presented in the line item 'Lease liabilities'.

The Group primarily rents real estate such as buildings and land for headquarters, branches and parking lots. For details related to right of use assets capitalized in statement of financial position arising from leases where the Group is lessee, please see Note 28 Property, equipment, investment properties and right of use assets.

Maturity analysis of lease liabilities based on undiscounted cash flows

EUR ths.	31.12.2021	31.12.2022
< 1 year	6,163	6,963
1-5 years	13,235	13,800
> 5 years	658	438
Total	**20,056**	**21,201**

During 2022, interest expenses on lease liabilities were recognised in the amount of EUR 0.8 million (2021: EUR 0.0 million). In addition, expenses in the amount of EUR 0.7 million (2021: EUR 0.7 million) relating to short term leases and expenses amounting to EUR 0.0 million (2021: 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 2022 was EUR 8.1 million (2021: EUR 7.9 million).

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

31. OTHER LIABILITIES

EUR ths.	31.12.2021	31.12.2022
Client settlement	25,296	26,869
Trade payables	44,060	59,464
Personnel balances and social fund	35,951	37,904
State budget, social and health insurance, taxes	5,394	5,449
Sundry liabilities	10	2,216
Other liabilities	**110,711**	**131,902**

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.	2021	2022
As at 1 January	**4,366**	**3,915**
Additions	2,843	5,801
Withdrawals	(3,293)	(2,758)
As at 31 December	**3,915**	**6,959**

32. PROVISIONS

Provisions are liabilities with uncertain timing or amount. The statement of financial position line item 'Provisions' includes:

- provisions for defined employee benefit plans recognised based on requirements of IAS 19 Employee benefits

- provisions for loan commitments and financial guarantees recognised based on requirements for the expected credit loss model under IFRS 9; and

- remaining classes of provisions recognised in accordance with IAS 37 Provisions, contingent liabilities and contingent assets such as provisions or litigation, restructuring, commitments and guarantees not in scope of IFRS 9.

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 24 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 33 Contingent liabilities.

Following classes of provision can be distinguished in the business of the Group:Following classes of provision can be distinguished in the business of the Group:

EUR ths.	31.12.2021	31.12.2022
Long-term employee provisions	7,577	5,596
Pending legal issues and tax litigation	9,602	9,857
Loan commitments and financial guarantees given	24,651	21,036
Other provisions	1,383	2,483
Restructuring	250	179
Other	1,133	2,304
Provisions	**43,213**	**38,972**

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 statement of financial position 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 statement of financial position. 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'.

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.	01.01.2022	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2022
Provisions for commitments and guarantees given						
Stage 1	5,356	45,229	(23,783)	(22,637)	(68)	4,097
Stage 2	7,445	-	(10,715)	(754)	14,462	10,438
Stage 3	572	-	(628)	1,424	578	1,946
POCI	11,278	-	(1,039)	(5,683)	-	4,556
Total	**24,651**	**45,229**	**(36,165)**	**(27,650)**	**14,972**	**21,037**

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**

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 performs 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 statement of financial position, in the income statement and in the statement of other comprehensive income were as follows:

EUR ths.	Long-term employee provision	Working anniversaries provision	Total
Present value of long-term employee benefit obligations – 1 January 2021	**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 December 2021	**4,496**	**3,081**	**7,577**
Service cost	188	166	354
Interest cost	8	5	13
Payments	(191)	(278)	(469)
Actuarial gains/losses recognised in OCI	(1,006)	(873)	(1,879)
Experience adjustments	(1,006)	(873)	(1,879)
As at 31 December 2022	**3,495**	**2,101**	**5,596**

Actuarial assumptions

The actuarial calculation of long-term employee provision used the following assumptions:

Long-term employee provision	2021	2022
Annual discount rate	0.17%	1.72%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	4,28% - 10,95%	6,61% - 24,81%
Retirement age	64 years	64 years

The actuarial calculation of working anniversaries provision used the following assumptions:

Working anniversary provision	2021	2022
Annual discount rate	0.17%	1.72%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	4,28% - 10,95%	6,61% - 24,81%
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 statement of financial position. The analysis is based on relative change in employee turnover by 10%.

EUR ths.	31.12.2021	31.12.2022
Change in the annual employee turnover +10%	4,272	3,276
Change in the annual employee turnover -10%	4,733	3,734

Provisions for pending legal issues and tax litigation and other provisions

Based on the requirement of IAS 37, 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. Expenses or income related to these provisions are reported in the statement of income under the line item ‘Other operating result’.

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 2022 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.	01.01.2022	Additions	Use	Release	31.12.2022
Restructuring provision	250	-	(71)	-	179
Pending legal issues and tax litigation	9,602	636	(324)	(57)	9,857
Other provisions	1,134	36,375	(15,751)	(19,454)	2,304
Total	**10,986**	**37,011**	**(16,146)**	**(19,511)**	**12,340**

EUR ths.	1.1.2021	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**

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

33. CONTINGENT LIABILITIES

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do involve credit risk and are therefore part of the overall risk of the Group (see Note 24 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

34. TOTAL EQUITY

in EUR ths.	31.12.2021	31.12.2022
Subscribed capital	212,000	212,000
Retained earnings and other reserves	1,456,619	1,586,475
Additional equity instruments	380,000	380,000
Owners of the parent	**2,048,619**	**2,178,475**
Non-controlling interests	1,918	1,806
Total	**2,050,537**	**2,180,281**

As of 31 December 2022, subscribed capital (also known as registered capital) consists of 212,000 (2021: 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 2021 (approved) and 2022 (proposed):

Profit distribution (in EUR ths.)	31.12.2021	31.12.2022
Profit for the year	239,428	244,559
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	3,592
Dividends paid to shareholder from profit for the year	97,158	106,931
Transfer to retained earnings	125,223	120,582
Number of shares with nominal value of EUR 1 000 (in pcs.)	212,000	212,000
Dividend per share (in EUR)	**458**	**504**

Dividends for the year 2021 were paid in March 2022 following the resolution of General Assembly of the Bank dated 22 March 2022.

As at 27 February 2022 was paid coupon payment from investment certificate SLSP AT1 PNC5 IC 2020 in amount of EUR 3.1 million.

On 23 May 2022, a coupon was paid from the investment certificate SLSP AT1 PNC5 IC 2020 II in the value of EUR 3.6 million and then on 25 May 2022, a coupon from the investment certificate EUR 80,000,000 Undated Fixed to Fixed Resettable Additional Tier 1 Notes was paid in the amount of EUR 1.8 million.

On 30 August 2022 was paid the coupon payment from investment certificate SLSP AT1 PNC5 IC 2020 in amount of EUR 3.1 million.

On 23 November 2022 was paid from coupon payment from investment certificate SLSP AT1 PNC5 IC 2020 II in amount of EUR 3.6 million and then on 25 November 2022, a coupon from investment certificate EUR 80,000,000 Undated Fixed to Fixed Resettable Additional Tier 1 Notes was paid in the amount of EUR 1.8 million.

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 2022 Legal reserve fund amounted to EUR 79.8 million (2021: 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 2022 Statutory fund amounted EUR 39.1 million (2021: 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 2022 the revaluation of financial assets measured at fair value through other comprehensive income amounted to EUR 0.0 million (2021: 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 2022 the remeasurement of the pension provision amounted EUR 1.0 million (2021: EUR 1.8 million), net of deferred tax.

SCOPE OF CONSOLIDATION

35. 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 2022, 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 statement of financial position. 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	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Subsidiaries						
Procurement Services SK, s.r.o.	3	3	-	-	3	3
SLSP Social Finance, s.r.o.	3,050	3,050	-	-	3,050	3,050
LANED a.s.	25,807	25,807	-	-	25,807	25,807
SLSP Seed Starter, s.r.o.	-	500	-	-	-	500
Total	**28,860**	**29,360**	**-**	**-**	**28,860**	**29,360**

Investments in subsidiaries of Slovenská sporiteľňa, a.s.

EUR ths.	Procurement Services SK, s.r.o.		SLSP Social Finance, s.r.o.		LANED a.s.		SLSP Seed Starter, s.r.o.	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Place of business	Tomášikova 48, 832 75 Bratislava, Slovakia		Tomášikova 48, 832 01 Bratislava, Slovakia		Tomášikova 48, 832 71 Bratislava, Slovakia		Tomášikova 48, 831 04 Bratislava, Slovakia	
Main business activity	Procurement		Advisory services		Real estate company		Advisory services	
Ownership held	51%		60%		100%		-	100.0%
Voting rights held	51%		60%		100%		-	100.0%
IFRS Classification	Subsidiary		Subsidiary		Subsidiary		Subsidiary	
Reporting currency	EURO		EURO		EURO		EURO	
Dividend income received	19	19	-	-	-	-	-	-
Investee's key financial information for the reporting period								
Cash and cash balances	245	224	267	227	4,043	6,556	-	411
Other current assets	57	34	-	-	103	13	-	-
Non-current assets	36	50	11,730	11,730	49,258	46,872	-	-
Current liabilities	-	-	7,012	7,029	21,849	20,082	-	-
Non-current liabilities	278	246	8	10	133	171	-	1
Operating result	(938)	(941)	(57)	(59)	2,527	2,410	-	(90)
Post-tax result from continuing operations	36	37	(57)	(59)	1,956	1,765	-	(90)
Total comprehensive income	36	37	(57)	(59)	1,956	1,765	-	(90)
Depreciation and amortization	-	-	-	-	(3,653)	(3,695)	-	-
Interest expense	-	-	(10)	(28)	(403)	(425)	-	-
Tax expense/income	(11)	(11)	-	-	(520)	(469)	-	-

Changes in subsidiaries during the year 2022

In August 2022, the subsidiary company SLSP Seed Starter, s.r.o. was established. The Bank has an equity stake in it amount of EUR 0.5 million and this represents participation in the amount of 100% of the company's share capital.

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.

36. 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 statement of financial position 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 2022 and for the year then ended.

Associates and joint ventures 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	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Associates								
Prvá stavebná sporiteľňa, a.s.	1,093	1,093	(12,032)	(17,812)	27,266	28,107	16,327	11,388
Slovak Banking Credit Bureau, s.r.o.	3	3	-	-	80	88	83	91
Holding Card Service s.r.o.	7,046	7,046	-	-	2,446	2,737	9,492	9,783
Dostupný Domov j.s.a. (49,88% associate of SLSP Social Finance, s.r.o.)	11,730	11,730	-	-	(205)	(429)	11,525	11,301
Total	**19,872**	**19,872**	**(12,032)**	**(17,812)**	**29,587**	**30,503**	**37,427**	**32,563**

The following table presents overview of the carrying amounts of investments in joint ventures:

EUR ths.	Cost		Impairment CONS		Equity CONS		Net book value	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Joint ventures								
Monilogi s.r.o.	-	1,157	-	-	-	-	-	1,157
Total	**-**	**1,157**	**-**	**-**	**-**	**-**	**-**	**1,157**

Investments in associates and joint ventures of Slovenská sporiteľňa, a.s.

	Monilogi s.r.o.*		Prvá stavebná sporiteľňa, a.s. ("PSS")**		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.	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**
Place of business	Mlynské nivy 1 829 90 Bratislava, Slovakia		Bajkalská 30 829 48 Bratislava, Slovakia		Mlynské nivy 14 821 09 Bratislava, Slovakia		Olbrachtova 1929/62 140 00 Praha 4, Czech Republic		Farská 48 949 01 Nitra, Slovakia	
Main business activity	Cash handling		Banking		Retail credit register		Equity release company		Rental of real estate and related services	
Ownership held	-	26.00%	9.98%		33.33%		21.78%		49.88%	
Voting rights held	-	26.00%	35.00%		33.33%		21.78%		49.88%	
IFRS Classification	Joint venture		Associate		Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO		EURO		EURO	
Investee's key financial information for the reporting year										
Cash and cash balances	-	N/A	650	427	214	268	5	3	19,954	1,554
Other current assets	-	N/A	158,611	188,902	47	28	-	-	4	92
Non-current assets	-	N/A	2.779,461	2,765,628	-	-	43,574	44,914	3,034	22,067
Current liabilities	-	N/A	2,371,046	2,370,310	5	24	-	-	48	1,039
Non-current liabilities	-	N/A	284,369	292,058	-	-	-	-	26	15
Operating result	-	N/A	37,505	34,092	(26)	(96)	(3)	(2)	(211)	(531)
Post-tax result from continuing operations	-	N/A	16,576	8,274	24	38	(3)	(2)	(217)	(449)
Total comprehensive income	-	N/A	16,576	8,274	24	38	(3)	(2)	(217)	(449)
Depreciation and amortization	-	N/A	(5,947)	(5,698)	-	-	-	-	(72)	(208)
Interest income	-	N/A	86,156	79,593	-	-	-	-	-	-
Interest expense	-	N/A	(26,795)	(22,051)	(2)	(2)	-	-	(1)	-
Tax expense/income	-	N/A	(5,206)	(4,968)	-	-	-	-	-	-

*Results of the joint venture Monilogi, s.r.o. were not known as of the date of processing the financial statements.

**In the table are disclosed unaudited data for 11 months.

In 2022 was the impairment of the investment in Prvá stavebná sporiteľňa, a.s. in the amount of EUR 5.9 million recognised as expense in line item 'Other operating result'. In 2021 the carrying amount of Prvá stavebná sporiteľňa, a.s. was impaired in the amount of EUR 12.0 million. The impairment loss was disclosed in line item 'Other operating result'.

Changes in associates and joint ventures during the year 2022

In May 2022, the Group made a cash deposit in the amount of EUR 0.1 million to the joint venture Monilogi, s.r.o., which represents a 26% share in its management. During the second half of the year 2022, the Group invested in the joint venture Monilogi, s.r.o. contribution to capital funds in the amount of EUR 0.6 million and a non-monetary deposit in the amount of EUR 0.5 million without changing the stake in its management.

Changes in associates and joint ventures 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.

OTHER DISCLOSURE MATTERS

37. 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 Group is controlled by the only shareholder Erste Group Bank AG, which directly owns 100% share on the voting rights of the Group. Further related parties include subsidiaries, which are under control of the Bank, associates and joint ventures 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 and joint ventures	
EUR ths.	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Assets						
Cash and cash balances	5,261	14,302	225	452	-	-
Derivatives	6,834	55,012	27	-	-	-
Derivatives – Hedge accounting	11,540	15,354	-	-	-	-
Securities	-	-	-	-	5,254	5,262
Loans and advances to banks	1,805	4,595	62	1	1	-
Loans and advances to customers	-	-	1,989	1,589	-	-
Other assets	-	1	-	-	-	-
Total	**25,440**	**89,264**	**2,303**	**2,042**	**5,255**	**5,262**

	Erste Group Bank AG		Companies of Erste Group		Associates and joint ventures	
EUR ths.	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Liabilities						
Derivatives held for trading	39,643	21,633	-	18	-	-
Deposits from banks	676	85	1,170	753	189	108
Deposits from customers	-	-	6,307	4,050	-	-
Debt securities issued	573,274	431,579	2,988	2,833	-	-
Derivatives – hedge accounting	31,844	103,266	-	-	-	-
Other liabilities	2,873	153	332	1,540	-	-
Total	**648,310**	**556,716**	**10,797**	**9,194**	**189**	**108**

Expenses/Income generated by transactions with related parties

	Erste Group Bank AG		Companies of Erste Group		Associates and joint ventures	
EUR ths.	2021	2022	2021	2022	2021	2022
Interest income	(7,818)	(3,296)	7	47	100	213
Interest expense	1,644	2,748	(8)	(124)	(10)	(2)
Net fee and commisssion income	(473)	174	13,494	16,705	1	3
Net trading result	14,352	28,675	(226)	(94)	-	-
General administrative expenses	(6,006)	(3,231)	(17,856)	(19,614)	-	(8)
Other operating result	(2,048)	48	477	605	7	296
Total	**(349)**	**25,118**	**(4,112)**	**(2,475)**	**98**	**502**

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 2022 were purchased by Erste Group Bank AG (see note 34).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 (2021: EUR 2.2 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 (2021: EUR 0.2 million). As at 31 December 2022 the Group owned a share in real estate fund Sporo realitný fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of EUR 1.0 million (2021: EUR 1.4 million).

As at 31 December 2022 and in 2021, 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 2022 in form of short-term employee benefits amounted to EUR 3.3 million (2021: EUR 3.2 million). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

38. AUDIT FEES AND TAX CONSULTANCY FEES

The following table contains fees charged by the auditors of the Bank and subsidiaries for the financial years 2022 and 2021; the auditors being PricewaterhouseCoopers Slovensko, s.r.o.

EUR ths.	2021	2022
Audit of consolidated financial statements	(554)	(691)
Other assurance services	(197)	(38)
Other non-audit services	(3)	(3)
Total	**(754)**	**(732)**

Other assurance services in the amount of EUR 38 thousand (2021: EUR 197 thousand) 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. Other non-audit services in the amount of EUR 3 thousand (2021: EUR 3 thousand) 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.

39. ANALYSIS OF REMAINING MATURITIES

Expected remaining maturities of assets and liabilities

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2021		31.12.2022	
Assets				
Cash and cash balances	2,907,420	-	1,254,543	-
Financial assets HfT	11,181	36,693	6,183	70,956
Derivatives	11,181	36,693	6,183	70,956
Non-trading financial assets at FVPL	-	15,068	-	17,206
Equity instruments	-	7,155	-	9,694
Debt securities	-	7,913	-	7,512
Financial assets at AC	2,213,773	17,282,915	2,901,417	18,742,703
Debt securities	70,424	3,841,234	434,854	3,720,045
Loans and advances to banks	49,983	-	26	-
Loans and advances to customers	2,093,366	13,441,681	2,466,537	15,022,658
Finance lease receivables	63,112	170,323	54,871	229,629
Hedge accounting derivatives	-	16,454	-	16,879
Property and equipment, right-of-use assets	-	145,557	-	146,058
Investment properties	-	1,518	-	1,453
Intangible assets	-	18,947	-	17,868
Investments in associates	-	37,427	-	33,720
Current tax assets	-	-	115	-
Deferred tax assets	-	69,107	-	71,493
Trade and other receivables	129,088	-	155,573	-
Other assets	35,692	-	25,555	-
Total assets	**5,360,266**	**17,794,009**	**4,398,257**	**19,347,965**

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2021		31.12.2022	
Liabilities				
Financial liabilities HfT	11,782	34,349	5,669	67,864
Derivatives	11,782	34,349	5,669	67,864
Financial liabilities at AC	16,302,381	4,547,185	17,110,758	4,078,921
Deposits from banks	34,929	2,858,418	62,736	1,110,892
Deposits from customers	15,944,549	28,214	16,897,033	15,722
Debt securities in issued	286,377	1,660,553	37,199	2,952,307
Other financial liabilities	36,526	-	113,790	-
Lease liabilities	6,161	13,890	6,961	14,236
Hedge accounting derivatives	-	31,844	684	102,582
Provisions	26,033	17,180	23,519	15,453
Current tax liabilities	2,222	-	7,392	-
Deferred tax liabilities	-	-	-	-
Other Liabilities	110,711	-	131,902	-
Total liabilities	**16,459,290**	**4,644,448**	**17,286,885**	**4,279,056**

40. RECONCILIATION OF CARRYING AMOUNTS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

As of 31.12. 2022, the Group decided to modify the structure of the Consolidated Statement of Cash Flows. This change is in order to be consistent in presentation with the parent company Erste Group Bank AG. The new structure of the Consolidated Statement of Cash Flows provides information that is reliable and more relevant to users in accordance with IAS 1 Article 45 and 46. The new calculation is based on net profit in comparison to profit before taxes used before. As for the adjustments of cash flows from operating activities, we excluded the mandatory minimum reserves in the NBS to be in line with the market practise. Therefore, the balances of cash and cash equivalents in the Consolidated Statement of Cash Flows corresponds to the balances in Consolidated Statement of Financial Position.

The following tables presents changes between the individual lines of the statement as of 31.12.2021. In order to present the impact of changed structure, these effects are disclosed in accordance with the original positions of the Consolidated Statement of Cash Flows.

Original structure of the statement	New structure of the statement	Original carrying amount	New carrying amount
EUR ths.	**EUR ths.**	**2021**	**2021**
Profit before income taxes	**Net result for the period**	**302,025**	**228,054**
Non-cash adjustments for:	Non-cash adjustments for items in net profit/loss for the year		
Loss allowances for loans and advances, Provisions for off-balance sheet	Net allocation of credit loss allowances and other provisions	1,172	1,067
Provisions for liabilities and other liabilities	Net allocation of credit loss allowances and other provisions	(105)	
Impairment of tangible and intangible assets net	Depreciation, amortisation, impairment and reversal of impairment of assets	(1,546)	31,810
Depreciation and amortization	Depreciation, amortisation, impairment and reversal of impairment of assets	33,356	
Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	2,172	2,172
Accrued interest, amortisation of discount and premium	Accrued interest, amortisation of discount and premium	34,517	34,517
Fair value adjust - hedging	Fair value adjust - hedging	(17,974)	(17,974)
Profit/(loss) on disposal of fixed assets	Other adjustments	161	7,488
Transfer of dividends received to investing activities	Other adjustments	(562)	
Cash flows from operations before changes in operating assets and liabilities	***Cash flows from operations before changes in operating assets and liabilities***	**353,216**	
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the central bank		(1,129,869)	
Financial assets held for trading	Financial assets held for trading	12,120	12,120
Non-trading financial assets at fair value through profit or loss	Non-trading financial assets at fair value through profit or loss	331	
Equity instruments	Equity instruments	504	504
Debt securities	Debt securities	(173)	(173)
Financial assets at fair value through other comprehensive income	Financial assets at fair value through other comprehensive income:	-	-
Financial assets at amortised cost	Financial assets at amortised cost	(1,289,356)	
Debt securities	Debt securities	(250,137)	(250,137)
Loans and advances to banks	Loans and advances to banks	(50,044)	(50,044)
Loans and advances to customers	Loans and advances to customers	(989,175)	(989,175)
Finance lease receivables	Finance lease receivables	7,577	7,577
Hedge accounting derivatives	Hedge accounting derivatives	17,891	17,891
Trade and other receivables	Trade and other receivables	(47,314)	(47,314)
Other assets from operating activities	Other assets from operating activities	(13,963)	(13,963)
Increase / (decrease) in operating liabilities:			

Table continues on the following page.

EUR ths.	Eur tis.	2021	2021
Increase / (decrease) in operating liabilities:			
Financial liabilities held for trading	Financial liabilities held for trading	(10,393)	(10,393)
Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	2,301,947	
Deposits from banks	Deposits from banks	1,183,092	1,183,092
Deposits from customers	Deposits from customers	1,104,834	1,104,834
Other financial liabilities	Other financial liabilities	14,021	14,021
Hedge accounting derivatives	Hedge accounting derivatives	(16,529)	(16,529)
Provisions	Other liabilities from operating activities	11,353	11,353
Other liabilities from operating activities	Other liabilities from operating activities	27,707	9,748
Net cash flows provided by / (used in) operating activities before income tax		**224,718**	
Income taxes paid		(84,042)	
Net cash flows provided by / (used in) operating activities	**Cash flow from operating activities**	**140,676**	**1,270,546**
Cash flows from investing activities			
Dividends received from associates and other investments	Dividends received from subsidiaries, associates and other investments	562	562
Purchase of share in associates	Purchase of share in subsidiaries, associates and joint ventures	(9,655)	(9,655)
Proceeds from sale of investments	Proceeds from sale of associates and other investments	-	-
Purchase of intangible assets, property and equipment	Purchase of intangible assets, property and equipment	(21,154)	(21,154)
Proceeds from sale of intangible assets, property and equipment	Proceeds from sale of intangible assets, property and equipment	796	796
Net cash flows provided by / (used in) investing activities	**Cash flow from investing activities**	**(29,451)**	**(29,451)**
Cash flows from financing activities			
Dividends paid	Dividends paid	(53,926)	(53,926)
AT1 certificate - issue	AT1 certificate - issue	80,000	80,000
Repayment of subordinated debt	Repayment of subordinated debt	(10,000)	(10,000)
Issue of subordinated debt	Issue of subordinated debt	-	-
Issue of the bonds	Issue of the bonds	232,417	232,417
Repayment of the bonds	Repayment of the bonds	(295,591)	(295,591)
Capital increase in subsidiaries and associates	Capital increase in subsidiaries and associate	2,000	2,000
Lease liabilities	Lease liabilities	(6,735)	(6,735)
Net cash flows provided by / (used in) financing activities	**Cash flow from financing activities**	**(51,835)**	**(51,835)**
Net increase / (decrease) in cash and cash equivalents		**60,065**	
Cash and cash equivalents at beginning of period	**Cash and cash equivalents at beginning of the year**	**363,352**	**1,717,486**
	Cash flows from operating activities		1,270,546
	Cash flow from investing activities		(29,451)
	Cash flow from financing activities		(51,835)
Effect of foreign exchange rate changes on cash and cash equivalents	Effect of foreign exchange rate changes on cash and cash equivalents	675	674
Cash and cash equivalents at end of period	**Cash and cash equivalents at end of the year**	**423,417**	**2,907,420**
Operational cash flows from interest and dividends (included in cash flow from operating activities)	**Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)**	**360,231**	**360,231**
Income taxes paid	Payments for taxes on income	(84,042)	(84,042)
Interest paid	Interest paid	(32,941)	(32,941)
Interest received	Interest received	476,652	476,652
Dividends received	Dividends received	562	562

41. EVENTS AFTER THE BALANCE SHEET DATE

There are no significant events after the balance sheet date that require disclosure or adjustment to these consolidated financial statements.

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

Chairman of the Board of Directors
and Chief Executive Officer

RNDr. Milan Hain, PhD.

Member of the Board of Directors
and Deputy of Chief Executive Officer

Bratislava, 27 February 2023

Separate financial statements

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2022

(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 2022 and the Bank's separate financial performance and 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 27 February 2023.

What we have audited

The Bank's separate financial statements comprise:

- the separate statement of income for the year ended 31 December 2022;
- the separate statement of comprehensive income for the year ended 31 December 2022;
- the separate statement of financial position as at 31 December 2022;
- the separate statement of changes in equity for the year ended 31 December 2022;
- the separate statement of cash flows for the year ended 31 December 2022; 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 to the Bank, to its parent or to its subsidiaries within the European Union 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.

The non-audit services that we have provided to the Bank, in the period from 1 January 2022 to 31 December 2022, are disclosed in v Note 38 to the separate financial statements.

Our audit approach

Overview

Materiality	Overall materiality: EUR 13.56 million , which represents approximately 5% of the average of the last three-year profits before income tax and levy on banking activities.
Key audit matters	The audit of the credit loss allowance estimate required our significant attention given the nature of this estimate and its significance to the separate financial statements.

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.

Overall materiality	EUR 13.56 million
How we determined it	We determined the materiality as approximately 5% of the average of the last three-year profits 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 years 2022, 2021 and 2020. Levy on banking activities was added to profit before income tax because of the similar nature as income tax. The recent economic development resulting from COVID-19 pandemic and the current macroeconomic situation, including high inflation, led to volatility in the Bank's profit before tax. The average of the three-year profits 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 the Note 13, Note 14 and Note Leases to the separate financial statements, management estimated total credit loss allowances for loans and advances to customers, finance lease receivables and trade and other receivables at EUR 352 million.	We assessed and tested design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans. We tested design and operating effectiveness of IT general 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 accurate quantification of credit loss allowances are in line with the requirements of IFRS 9.

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Key audit matter	How our audit addressed the key audit matter
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 individual or collective credit loss allowances are not appropriately identified and estimated. The estimates required for measuring credit loss allowances are 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 2022, the estimate of credit loss allowances was significantly influenced by the current macroeconomic situation influenced by the Russia/Ukraine conflict which resulted in energy crisis, high inflation and decrease in economic activity. 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.	A sample of loan exposures was examined in order to test accuracy of credit loss allowances calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows, by comparing them to historical performance of the customer and expected future performance and we assessed external and internal valuations of the underlying collateral and comparing them to values used by management in the expected credit loss quantification. On a sample basis, we assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Group to estimate collective credit loss allowances for loans that share similar credit risk characteristics. The underlying models and expert judgement applied by Group in response to the current geopolitical situation (including high energy prices, decrease in economic activity) were assessed by our specialists dealing with financial risk management and modelling. They assessed the design and application of the models for compliance with the relevant reporting standards, including introduction of additional criteria used for identification of significant increase in credit risk, incl. stage overlays and shifts in risk parameters due to the current macroeconomic situation. 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 have assessed a validation process implemented by the Group 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 Company 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 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.

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- 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.

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 six years. Our appointment for the year ended 31 December 2022 was approved by the shareholder's resolution on 22 March 2022.

The statutory auditor on the audit resulting in this independent auditor's report is Ing. Eva Hupková, FCCA.

PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Ing. Eva Hupková, FCCA
SKAU licence No. 672

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

28 February 2023, except for *Reporting on other information including the Annual Report* section of our report, for which the date of our report is 28 March 2023.

Bratislava, Slovak Republic

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SEPARATE STATEMENT OF INCOME

for the year ended 31 December 2022

EUR ths.	Notes	2021	2022
Net interest income	2	428,292	443,561
Interest income		421,720	470,015
Other similar income		39,478	24,541
Interest expenses		(18,202)	(40,311)
Other similar expenses		(14,704)	(10,684)
Net fee and commission income	3	174,347	192,216
Fee and commission income		194,615	214,344
Fee and commission expenses		(20,268)	(22,128)
Dividend income	4	620	606
Net trading result	5	9,795	23,636
Gains/losses from financial instruments measured at fair value through profit or loss	6	(706)	907
Rental income from investment properties & other operating leases	7	262	316
Personnel expenses	8	(154,482)	(161,121)
Other administrative expenses	8	(104,273)	(111,113)
Depreciation and amortisation	8	(36,819)	(37,555)
Gains/losses from derecognition of financial assets measured at amortised cost		1	2
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss		(2,643)	(452)
Impairment result from financial instruments	9	(1,099)	(32,114)
Other operating result	10	(352)	(5,100)
Levies on banking activities		(4,665)	(5,894)
Pre-tax result from continuing operations		**312,943**	**313,789**
Taxes on income	11	(73,515)	(69,230)
Net result for the period		**239,428**	**244,559**

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 34 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.

		2021	2022
Net result attributable to owners of the parent	EUR ths.	239,428	244,559
Number of outstanding shares	pcs.	212,000	212,000
Basic and diluted earnings per share	**EUR**	**1,129**	**1,154**

The notes on pages 190 to 305 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

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

EUR ths.	2021	2022
Net result for the period	**239,428**	**244,559**
Other comprehensive income		
Items that may not be reclassified to profit or loss	**(59)**	**794**
Remeasurement of defined benefit plans	(74)	1,005
Deferred taxes relating to items that may not be reclassified	15	(211)
Items that may be reclassified to profit or loss	**-**	**-**
Total other comprehensive income	**(59)**	**794**
Total comprehensive income	**239,369**	**245,353**

The notes on pages 190 to 305 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

EUR ths.	Notes	31.12.2021	31.12.2022
Assets			
Cash and cash balances	12	2 907 420	1 254 543
Financial assets held for trading	16	47 874	77 139
Derivatives		47 874	77 139
Non-trading financial assets at fair value through profit or loss	17	21 064	21 843
Equity instruments		7 155	9 694
Debt securities		13 909	12 149
Financial assets at amortised cost	13	19 518 537	21 664 202
Pledged as collateral		4 323 690	3 914 418
Debt securities		3 911 658	4 154 899
Loans and advances to banks		49 983	26
Loans and advances to customers		15 556 896	17 509 277
Finance lease receivables	Leases	233 435	284 500
Hedge accounting derivatives	19	16 454	16 879
Property and equipment, right-of-use assets	28	110 972	162 420
Investment properties	28	1 518	1 453
Intangible assets	29	18 947	17 868
Investments in subsidiaries, associates and joint ventures	35,36	37 002	38 659
Deferred tax assets	11	67 843	69 979
Trade and other receivables	14	128 930	155 526
Other assets	30	35 692	24 574
Total assets		**23 145 688**	**23 789 585**
Liabilities and Equity			
Financial liabilities held for trading	16	46 131	73 533
Derivatives		46 131	73 533
Financial liabilities at amortised cost	15	20 853 049	21 196 021
Deposits from banks		2 893 347	1 173 628
Deposits from customers		15 977 315	16 920 169
Debt securities issued		1 945 861	2 988 434
Other financial liabilities		36 526	113 790
Lease liabilities		32 333	81 718
Hedge accounting derivatives	19	31 844	103 266
Provisions	32	43 214	38 972
Current tax liabilities	11	2 193	7 374
Other liabilities	31	110 892	131 521
Equity		2 026 032	2 157 180
Equity attributable to owners of the parent	34	2 026 032	2 157 180
Subscribed capital		212 000	212 000
Additional equity instruments		380 000	380 000
Retained earnings and other reserves		1 434 032	1 565 180
Total liabilities and equity		**23 145 688**	**23 789 585**

The notes on pages 190 to 305 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

EUR ths.	Subscribed capital	Retained earnings and other funds			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 01.01.2022	**212,000**	**79,795**	**39,104**	**1,316,883**	**(1,750)**	**380,000**	**2,026,032**	**2,026,032**
Dividends paid / Distribution for Investment certificate	-	-	-	(114,205)	-	-	**(114,205)**	**(114,205)**
Total comprehensive income	-	-	-	244,559	794	-	**245,353**	**245,353**
Net result for the period	-	-	-	244,559	-	-	**244,559**	**244,559**
Other comprehensive income	-	-	-	-	794	-	**794**	**794**
Change from remeasurement of defined benefit pension liabilities	-	-	-	-	794	-	**794**	**794**
As of 31.12.2022	**212,000**	**79,795**	**39,104**	**1,447,237**	**(956)**	**380,000**	**2,157,180**	**2,157,180**

As at 31 December 2022 the impact of deferred tax included in ´Fair value reserve´ amounts EUR 0.0 million (2021: EUR 0.0 million) and the impact of deferred tax included in ´Remeasurement of defined benefit pension liabilities´ amounts EUR 0.0 million (2021: EUR 0.0 million). For more details on deferred tax please refer to note 11.

EUR ths.	Subscribed capital	Retained earnings and other funds			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 01.01.2021	**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	-	-	-	584	-	-	**584**	**584**
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**	**1,316,882**	**(1,750)**	**380,000**	**2,026,031**	**2,026,031**

For more details on the transaction of AT1 certificate issue included in the line item ´Capital increases/ decreases´ please refer to note 34.

The notes on pages 190 to 305 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

EUR ths.		2021	2022
Net result for the period	**Notes**	**239,428**	**244,559**
Non-cash adjustments for items in net profit/loss for the year			
Net allocation of credit loss allowances and other provisions	10	3,853	30,201
Depreciation, amortisation, impairment and reversal of impairment of assets	28,29	35,273	34,737
Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	6	(113)	(1,422)
Accrued interest, amortisation of discount and premium	2	35,059	46,379
Fair value adjust - hedging	19	(17,974)	(116,201)
Other adjustments		(3,205)	(3,863)
Cash flows from operations before changes in operating assets and liabilities			
Financial assets held for trading	16	12,120	(29,265)
Non-trading financial assets at fair value through profit or loss	17		
Equity instruments		504	(1,117)
Debt securities		(5,588)	1,761
Financial assets at amortised cost	13		
Debt securities		(250,137)	(285,718)
Loans and advances to banks		(49,934)	49,957
Loans and advances to customers		(984,560)	(1,990,136)
Finance lease receivables	Leases	7,138	(50,803)
Hedge accounting derivatives	19	17,891	(425)
Trade and other receivables	14	(47,333)	(26,596)
Other assets from operating activities	30,11	(15,186)	11,328
Financial liabilities held for trading	16	-	27,402
Financial liabilities at fair value through profit or loss	16	(10,393)	-
Financial liabilities measured at amortised cost	15		
Deposits from banks		1,183,092	(1,719,719)
Deposits from customers		1,053,584	940,470
Other financial liabilities		14,021	77,264
Hedge accounting derivatives	19	(16,529)	71,422
Provisions	32	8,520	(2,571)
Other liabilities from operating activities	31,11	11,317	26,847
Cash flow from operating activities		**1,220,848**	**(2,665,509)**
Dividends received from subsidiaries, associates and other investments	4	608	606
Purchase of share in subsidiaries, associates and joint ventures	35,36	(1,000)	(1,657)
Proceeds from liquidation of subsidiaries and associates	35,36	25,925	-
Proceeds from merge of subsidiaries and associates	35,36	24,848	-
Purchase of intangible assets, property and equipment	28,29	(20,843)	(23,411)
Proceeds from sale of intangible assets, property and equipment	28,29	796	2,267
Cash flow from investing activities		**30,334**	**(22,195)**
Dividends paid	34	(53,926)	(114,205)
AT1 certificate - issue	34	80,000	-
Repayment of subordinated debt	34	(10,000)	(20,000)
Issue of the bonds	34	231,347	1,436,855
Repayment of the bonds	34	(295,591)	(253,511)
Lease liabilities	34	(13,753)	(14,446)
Cash flow from financing activities		**(61,923)**	**1,034,693**
Cash and cash equivalents at beginning of the year	12	**1,717,486**	**2,907,420**
Cash flows from operating activities		1,220,848	(2,665,509)
Cash flow from investing activities		30,334	(22,195)
Cash flow from financing activities		(61,923)	1,034,693
Effect of foreign exchange rate changes on cash and cash equivalents		674	134
Cash and cash equivalents at end of period	12	**2,907,420**	**1,254,543**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)		**368,766**	**415,117**
Payments for taxes on income	11	(83,240)	(66,373)
Interest paid	2	(25,778)	(42,497)
Interest received	2	477,177	523,380
Dividends received	4	608	606

Cash and cash equivalents are equal to the amount in the statement of financial position line item 'Cash and cash balances'. Further information related to net debt reconciliation are provided in note 15. For more details on the new structure of Separate statement of cash flows please refer to note 40.

The notes on pages 190 to 305 are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

General information

Slovenská sporiteľňa, a.s. (hereinafter 'the Bank') has its registered office at Tomášikova 48, 832 37 Bratislava, Slovak Republic. The Bank was incorporated as a joint stock company 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.

The Bank's sole shareholder is Erste Group Bank AG, which has its registered office at Am Belvedere 1, 1100 Vienna, and which is the ultimate 100% parent company of the Bank. Information on the shareholding structure of the ultimate parent company is disclosed in the 2022 financial statements of Erste Group Bank AG or up-to-date information is available on its homepage.

The Board of Directors of the Bank had five members as at 31 December 2022:

Ing. Peter Krutil (chairman), Ing. Pavel Cetkovský (member), RNDr. Milan Hain, PhD. (member), Mgr. Ing. Norbert Hovančák (member) and Mgr. Juraj Barta, CFA (member).

The chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. Other members of the Board of Directors are the deputies of the Chief Executive Officer.

The Supervisory Board of the Bank had six members as at 31 December 2022:

David O´Mahony (chairman), Mag. Jan Homan (vice-chairman), Paul Formanko, MBA (member), JUDr. Vazil Hudák (member), Mgr. Alena Adamcová (member) and Juraj Futák (member).

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 (27 February 2023) and the annual general meeting (29 March 2023).

Significant accounting policies

a) Basis of preparation

The separate financial statements of the Bank for the financial year ending on 31 December 2022 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, etc.) are set out in respective parts of these statements.

These separate financial statements have been prepared on the basis that the Bank will be able to continue as a going concern for the foreseeable future.

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

b) 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 Bank 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.

c) 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 24 Credit risk)

In 2022 the war in Ukraine, the energy crisis, inflation and interest rates developments brought additional factors of uncertainties for Bank's financial performance and position. In 2021 such additional uncertainties resulted from the Covid-19 pandemic. The potential effects include significant impacts on expected credit losses, on operating income as well as impacts of potential non-financial assets impairment assessments. Bank follows the developments closely and recognises the effects in the financial statements as a reasonable information supporting their recognition is available.

Details about effects of these factors on the expected credit losses estimation are described in Note 24 Credit risk.

The market capitalisation of Bank at year-end 2022 was below the carrying amount of the net assets. Therefore, a thorough analysis was performed to ensure the recoverability of the non-financial assets. In the course of this analysis the bank has estimated the value in use on the level of the cash-generating units (CGUs). The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information. The cash flow projection period is five years. Beyond this planning horizon the cash flows are extrapolated to perpetuity based on a terminal growth rate. For those CGUs for which the carrying amount was higher than the value in use, the fair values of the underlying non-financial assets were derived and compared with the respective book values. In addition to the amounts already recognised in the course of the financial statement preparation process (see Note 28 Property, equipment and investment properties and Note 29 Intangible assets), the analysis did not reveal any need for impairment.

d) 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 2022. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below.

Effective standards and interpretations

The following amendments of standards have become mandatory for the financial year 2022 and have been endorsed by the EU:

- Annual Improvements to IFRSs 2018-2020 Cycle (amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41).

Application of the above-mentioned amendments in 2022 did not have a significant impact on the Bank'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. All of them are endorsed by the EU:

- IFRS 17: Insurance contracts
- 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

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. Application of IFRS 17 is not expected to have a significant impact on Bank's financial statements.

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 2022.

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 190 branches (status as at 31 December 2022).

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.	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Net interest income	259,565	276,697	92,081	100,817	784	5,648	75,862	60,399	428,292	443,561
Net fee and commission income	141,398	156,136	24,056	26,833	14,259	15,262	(5,366)	(6,015)	174,347	192,216
Dividend income	-	-	-	-	-	-	620	606	620	606
Net trading result	4,309	5,407	3,808	8,724	2,416	5,495	(738)	4,010	9,795	23,636
Gains/losses from financial instruments at FVPL	-	-	-	-	-	-	(706)	907	(706)	907
Rental income from investment properties & other operating leases	-	-	-	-	-	-	262	316	262	316
General administrative expenses	(250,692)	(260,926)	(37,722)	(41,497)	(4,801)	(5,118)	(2,359)	(2,248)	(295,574)	(309,789)
Gains/losses from derecognition of financial assets at AC	-	-	-	-	-	-	1	2	1	2
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	(2,643)	(452)	(2,643)	(452)
Impairment result from financial instruments	(12,259)	(19,716)	11,515	(11,578)	17	17	(372)	(837)	(1,099)	(32,114)
Other operating result	(847)	(1,008)	(1,420)	(2,259)	(656)	(271)	2,571	(1,562)	(352)	(5,100)
Levies on banking activities	(846)	(1,008)	(1,119)	(1,087)	(656)	(272)	(2,044)	(3,527)	(4,665)	(5,894)
Pre-tax result from continuing operations	**141,474**	**156,590**	**92,318**	**81,040**	**12,019**	**21,033**	**67,132**	**55,126**	**312,943**	**313,789**
Taxes on income	(29,710)	(32,884)	(19,387)	(17,018)	(2,524)	(4,417)	(21,894)	(14,911)	(73,515)	(69,230)
Net result for the period	**111,764**	**123,706**	**72,931**	**64,022**	**9,495**	**16,616**	**45,238**	**40,215**	**239,428**	**244,559**
Net result attributable to owners of the parent	**111,764**	**123,706**	**72,931**	**64,022**	**9,495**	**16,616**	**45,238**	**40,215**	**239,428**	**244,559**
Operating income	405,271	438,239	119,945	136,374	17,460	26,405	69,934	60,224	612,610	661,242
Operating expenses	(250,692)	(260,926)	(37,722)	(41,497)	(4,801)	(5,118)	(2,359)	(2,248)	(295,574)	(309,789)
Operating result	**154,579**	**177,313**	**82,223**	**94,877**	**12,659**	**21,287**	**67,575**	**57,976**	**317,036**	**351,453**
Risk-weighted assets (credit risk, eop)*	3,693,551	3,926,089	4,134,638	4,620,677	4,740	2,553	207,117	313,821	8,040,046	8,863,140
Average allocated capital**	462,059	531,362	453,948	499,524	5,218	6,902	353,128	442,652	1,274,353	1,480,440
Cost/income ratio	61.86%	59.54%	31.45%	30.43%	27.50%	19.38%	3.37%	3.73%	48.25%	46.85%
Return on allocated capital	24.19%	23.28%	16.07%	12.82%	181.95%	240.75%	12.81%	9.09%	18.79%	16.52%
Total assets (eop)	11,447,922	12,570,896	4,577,766	5,456,918	76,465	82,591	7,043,535	5,679,180	23,145,688	23,789,585
Total liabilities excluding equity (eop)	14,021,083	13,729,221	1,683,274	2,302,624	348,205	718,039	5,067,094	4,882,521	21,119,656	21,632,405
Impairments	**(12,260)**	**(19,717)**	**11,515**	**(11,578)**	**17**	**17**	**(371)**	**(836)**	**(1,099)**	**(32,114)**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	(12,153)	(19,577)	19,847	(15,432)	17	17	(374)	(837)	7,337	(35,829)
Net impairment loss on commitments and guarantees given	(107)	(140)	(8,332)	3,854	-	-	3	1	(8,436)	3,715

* 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.	2021	2022
Financial assets at AC	421,720	470,015
Demand deposits	4	7,539
Loans and advances	333,251	372,108
Debt securities	88,465	90,368
Interest income	**421,720**	**470,015**
Non-trading financial assets at FVPL	6	24
Financial assets HfT	14,959	14,582
Hedge accounting derivatives, interest rate risk	(8,290)	(5,982)
Other assets	4,992	5,254
Negative interest from financial liabilities	27,811	10,663
Other similar income	**39,478**	**24,541**
Interest and other similar income	**461,198**	**494,556**
Financial liabilities at AC	(18,202)	(40,311)
Deposits	(4,813)	(15,936)
Debt securities in issue	(13,389)	(24,375)
Interest expenses	**(18,202)**	**(40,311)**
Financial liabilities HfT	(12,869)	(12,634)
Hedge accounting derivatives, interest rate risk	7,163	7,505
Other liabilities	68	(952)
Negative Interest from financial assets	(9,066)	(4,603)
Other similar expenses	**(14,704)**	**(10,684)**
Interest and other similar expenses	**(32,906)**	**(50,995)**
Net interest income	**428,292**	**443,561**

An amount of EUR 6.8 million (2021: EUR 6.4 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 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’.

In 2022 the interest expense on financial liabilities at AC includes catch-up loss from Targeted Long Term Refinancing Operation (TLTRO III) in the amount of EUR 6.6 million. In 2021 the negative interest expense from financial liabilities at AC was in the amount EUR 27.8 million, including the catch up adjustment from TLTRO III - gain EUR 12.9 million. For more details refer to Note 15 Financial liabilities at amortised costs.

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.

Fee and commission income is measured based on the consideration specified in the contract with a customer. The Bank recognises revenue when it transfers a promised 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, premiums received for financial guarantees 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 and building society brokerage. Services provided over a period of time also include certain payment services 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. Transaction based services also include certain payment services 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. For example, loan servicing fees agreed in a loan contract that are not integral to the effective interest rate of a financial instrument are included in the net fee and commission income.

EUR ths.	2021		2022	
	Income	Expenses	Income	Expenses
Securities	4,147	(828)	6,597	(1,818)
Issues	127	-	88	-
Transfer orders	991	(509)	1,574	(1,636)
Other	3,029	(319)	4,935	(182)
Custody	3,202	(1,840)	3,968	(2,075)
Collective investment	810	-	82	-
Other	2,392	(1,840)	3,886	(2,075)
Payment services	107,429	(10,356)	114,973	(9,692)
Card business	43,343	(6,858)	54,500	(6,409)
Other	64,086	(3,498)	60,473	(3,283)
Customer resources distributed but not managed	59,034	(91)	64,490	(251)
Collective investment	20,367	-	21,798	-
Insurance products (as agent)	38,643	(91)	42,667	(251)
Other	24	-	25	-
Lending Business	20,221	(5,078)	23,280	(5,253)
Guarantees given, guarantees received	4,619	(12)	5,456	(10)
Loan commitments given, loan commitments received	4,101	-	3,747	-
Other lending business	11,501	(5,066)	14,077	(5,243)
Other	582	(2,075)	1,036	(3,039)
Total fee and commission income and expenses	**194,615**	**(20,268)**	**214,344**	**(22,128)**
Net fee and commission income	**174,347**		**192,216**	

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 13,179.7 million (2021: EUR 13,762.4 million).

4. DIVIDEND INCOME

EUR ths.	2021	2022
Non-trading financial assets at fair value through profit or loss	587	588
Financial assets at fair value through other comprehensive income	15	-
Financial assets at amortised cost	18	18
Dividend income	**620**	**606**

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.	2021	2022
Securities trading	1,662	4,570
Derivatives trading	8,191	18,136
Result from hedge accounting	(58)	930
Net trading result	**9,795**	**23,636**

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.	2021	2022
Result from measurement/sale of financial assets designated at FVPL	61	-
Result from financial assets and liabilities designated at FVPL	**61**	**-**
Result from measurement/sale of financial assets mandatorily at FVPL	(767)	907
Gains/losses from financial instruments measured at fair value through profit or loss	**(706)**	**907**

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.	2021	2022
Investment properties	262	316
Rental income from investment properties & other operating leases	**262**	**316**

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.

Information about remuneration of management including performance-linked remuneration can be found in Note 37 Related-party transactions and principal shareholders.

As at 31 December 2022 the Bank had 3,573 employees, thereof five members of the Board of Directors. As at 31 December 2021 the Bank had 3,632 employees, thereof four members of the Board of Directors.

WeShare program

The WeShare-Participation program and the WeShare-Investment Plus program are equity-settled share-based payment transactions. Both programs are offered to employees of the Bank.

Under the WeShare-Investment Plus program all employees, who had been employed by the Bank, from May 2022 until September 2022 could voluntarily invest in Erste Group shares and receive free shares depending on the amount of their personal investment. The WeShare-Investment Plus program was settled in September 2022. The number of free shares, which were granted under this program for the period, is 41,754. Personnel expenses in the amount of EUR 1.1 million were recorded.

Under the WeShare-Participation program all employees, who have been employed by the Bank for at least six months in year 2021 and have active employment status in September 2022 are entitled to receive shares in an equivalent amount of EUR 350. The expected number of free shares, which are granted under this program for the period, is 43,465 (2021: 31,302). Based on the number of entitled employees, personnel expenses in the amount of EUR 0.5 million (2021: 2.3 million) were recorded and a corresponding reserve in retained earnings was created.

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 premises' in total amount of EUR 0.7 million (2021: EUR 0.7 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 2022.

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.	2021	2022
Personnel expenses	**(154,482)**	**(161,121)**
Wages and salaries	(108,288)	(114,408)
Compulsory social security	(38,096)	(40,443)
Long-term employee provisions	(346)	518
Other personnel expenses	(7,752)	(6,788)
Other administrative expenses	**(104,273)**	**(111,113)**
Deposit insurance contribution	(9,426)	(9,856)
IT expenses	(48,069)	(50,410)
Expenses for office premises	(11,409)	(14,542)
Office operating and administrative expenses	(11,513)	(12,509)
Advertising/marketing	(14,541)	(14,719)
Legal and consulting costs	(3,087)	(4,803)
Sundry administrative expenses	(6,228)	(4,274)
Depreciation and amortisation	**(36,819)**	**(37,555)**
Software and other intangible assets	(7,448)	(7,697)
Owner occupied real estate	(20,560)	(20,672)
Investment properties	(206)	(214)
Office furniture and equipment and sundry property and equipment	(8,605)	(8,972)
General administrative expenses	**(295,574)**	**(309,789)**

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.	2021	2022
Financial assets at AC	6,876	(36,849)
Net allocation to credit loss allowances	10,314	(35,544)
Direct write-offs	(3,969)	(1,809)
Recoveries recorded directly to the income statement	531	504
Finance lease receivables	461	1,020
Net allocation to credit loss allowances	459	971
Direct write-offs	(10)	(4)
Recoveries recorded directly to the income statement	12	53
Credit loss allowances for loan commitments and financial guarantees given	(8,436)	3,715
Impairment result from financial instruments	**(1,099)**	**(32,114)**

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.	2021	2022
Net movements from notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**39,789**	**(6,953)**
Financial assets at amortised cost	49,605	(12,521)
Finance lease receivables	472	1,695
Trade and other receivables	(1,852)	158
Commitments and financial guarantees given	(8,436)	3,715
Items not recognized through income statement - use	**48,493**	**33,871**
Financial assets at amortised cost	48,038	33,076
Finance lease receivables	-	795
Trade and other receivables	455	-
Commitments and financial guarantees given	-	-
Items recognized through income statement – net allocations and releases	**(8,704)**	**(40,824)**
Financial assets at amortised cost	1,567	(45,597)
Finance lease receivables	472	900
Trade and other receivables	(2,307)	158
Commitments and financial guarantees given	(8,436)	3,715
Impairment result from financial instruments	**(1,099)**	**(32,114)**
Items reconciled to movements in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**(8,704)**	**(40,824)**
Net allocation of loss allowances	(268)	(44,539)
Net allocation of loss allowances for commitments and guarantees given	(8,436)	3,715
Items not recognized as movement in notes 13, 14, 33 and chapter Leases, part Finance lease receivables	**7,605**	**8,710**
Unwinding correction	11,041	9,966
Direct write-offs	(3,979)	(1,813)
Recoveries recorded directly to the income statement	543	557

10. OTHER OPERATING RESULT

The other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities.

It includes expenses for allocations to and income from release of provisions in scope of IAS 37. Further, impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets are presented as other operating result. Any impairment losses on goodwill are also included in this line item.

In addition, the other operating result encompasses the following: resolution fund contributions, expenses for other taxes as well as 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.	2021	2022
Other operating expenses	**(32,835)**	**(33,011)**
Allocation to other provisions	(21,735)	(20,834)
Levies on banking activities	(4,665)	(5,894)
Recovery and resolution fund contributions	(4,665)	(5,894)
Other taxes	(148)	(146)
Other	(6,287)	(6,137)
Other operating income	**32,483**	**27,911**
Release of other provisions	17,343	19,057
Result from properties/movables/other intangible assets other than goodwill	1,800	3,205
Result from other operating expenses/income	13,340	5,649
Other operating result	**(352)**	**(5,100)**

Operating expenses (including repair and maintenance) for investment properties held for rental income totalled to EUR 0.0 million (2021: EUR 0.0 million).

Liquidation residue from liquidation of the subsidiary Služby SLSP, s. r. o. in 2021 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 5.9 million (2021: EUR 4.7 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.

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.

The Bank has not recorded a deferred tax liability in respect of temporary differences associated with investments in subsidiaries, associates and joint ventures as the Bank is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Accounting judgements, assumptions and estimates

The determination of tax bases is 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 the Bank based on the results reported for tax purposes, corrections to taxes on income for previous years and the change in deferred taxes.

EUR ths.	2021	2022
Current tax expense / income	(65,251)	(71,577)
current period	(65,251)	(71,577)
Deferred tax expense / income	(8,264)	2,347
current period	(8,264)	2,347
Total	**(73,515)**	**(69,230)**

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.	2021	2022
Pre-tax result from continuing operations	312,943	313,789
Statutory tax rate	21%	21%
Income tax expense for the financial year at the Slovak statutory tax rate (21%)	65,719	65,897
Impact of tax-exempt earnings of investments and other tax-exempt income	(3,316)	(774)
thereof - Permanently tax-exempt (income) from dividends	(116)	(114)
thereof - Permanently tax-exempt (income) from revaluation of asset	(621)	(636)
thereof - Transaction from participation	(2,315)	-
thereof - Other	(264)	(24)
Tax increases due to non-deductible expenses, additional business tax and similar elements	11,144	4,430
thereof - Permanently non-deductible expenses with fines, penalties, litigations and similar topics	12	6
thereof - Permanent differences coming from financial assets	8,057	1,773
thereof - Permanent differences coming from other asset	1,124	658
thereof - Transaction from participation	33	-
thereof - Other	1,918	1,993
Tax expenses / earnings not attributable to the reporting period	(32)	(322)
Total	**73,515**	**69,231**

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

	2021				2022		
EUR ths.	Pre-tax amount	Income tax	Net-of-tax amount		Pre-tax amount	Income tax	Net-of-tax amount
Remeasurement of defined benefit plans	(74)	15	(58)	-	1,005	(211)	794
Other comprehensive income	**(74)**	**15**	**(58)**	**-**	**1,005**	**(211)**	**794**

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

	Tax assets		Tax liabilities		Through PL	Through OCI	Other	Total
EUR ths.	31.12.2021	31.12.2022	31.12.2021	31.12.2022	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	52,129	55,526	-	-	(3,397)	-	-	**(3,397)**
Property, equipment and investment properties	-	-	(576)	(220)	(356)	-	-	**(356)**
RoU Assets	17	99	-	-	(83)	-	-	**(83)**
Liabilities								-
Long-term employee provisions (tax valuation different)	1,591	1,175	-	-	205	211	-	**416**
Other provisions (tax valuation different)	5,560	5,045	-	-	515	-	-	**515**
Other liabilities	8,823	8,265	-	-	559	-	-	**559**
Total deferred tax	**68,208**	**70,198**	**(576)**	**(220)**	**(2,557)**	**211**	**-**	**(2,346)**
Tax loss carried forward	631	-	-	-	211	-	-	**631**
Total deferred taxes	**67,843**	**69,979**	**-**	**-**	**(2,347)**	**211**	**-**	**(2,136)**
Current taxes	**-**	**-**	**(2,193)**	**(7,374)**	**71,577**	**-**	**-**	**71,577**
Total taxes	**67,843**	**69,979**	**(2,193)**	**(7,374)**	**69,230**	**211**	**-**	**69,441**

	Tax assets		Tax liabilities		Through PL	Through OCI	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	-	-	(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	-	-	(420)	-	(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**

The Bank's separate deferred tax asset position in amount of EUR 70.0 million as of 31 December 2022 (2021: EUR 67.8 million) is expected to be recoverable in the foreseeable future. These expectations result from year-end recoverability assessments undertaken by the Bank. 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 statement of financial position and measured in accordance with their assigned categories.

Accounting and measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods: at amortised cost and fair value.

a) 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.

b) 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

a) 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.

b) 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 24 Credit risk.

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.

Measurement of expected credit losses reflects cash flows expected from collateral and those financial guarantees held by Bank which are considered as integral to the contractual terms of financial assets whose risk is guaranteed. 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. 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 statement of financial position. 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'.

For financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the statement of financial position 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'.

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

a) 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'.

b) 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.

c) 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. Derecognition would also result from a substantial modification of the terms of an existing financial liability or from exchanging debt instruments with substantially different terms between the Bank and the lender. In this respect the substantially modified / substantially different threshold is met when the present value of the cash flows under the new terms discounted using the original EIR is at least 10% different to the carrying amount of the liability before the modification / exchange.

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

a) 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.

b) 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.

c) 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 24 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, Note 24 Credit risk, Note 33 Contingent liabilities.

d) Financial liabilities stemming from the TLTRO programme of the ECB

For details related to assessments of whether the TLTRO III liabilities contain government grants, how the effective interest rate is determined and changes in estimated cash flows based on expected fulfilment of eligibility conditions see Note 15 Financial liabilities at amortised cost.

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.

In the statement of financial position, 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 179.5 million (2021: EUR 2,484.0 million) at the reporting date. The mandatory minimum reserve requirement is calculated from defined statement of financial position 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.

EUR ths.	31.12.2021	31.12.2022
Cash on hand	413,763	339,594
Cash balances at central banks	2,483,999	899,437
Other demand deposits at credit institutions	9,658	15,512
Cash and cash balances	**2,907,420**	**1,254,543**

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 31.12.2022											
General governments	3,734,543	-	-	-	3,734,543	(539)	-	-	-	(539)	3,734,004
Credit institutions	296,446	-	-	-	296,446	(247)	-	-	-	(247)	296,199
Other financial corporations	514	25,316	-	-	25,830	(2)	(581)	-	-	(583)	25,247
Non-financial corporations	76,544	23,439	-	-	99,983	(62)	(472)	-	-	(534)	99,449
Total	**4,108,047**	**48,755**	**-**	**-**	**4,156,802**	**(850)**	**(1,053)**	**-**	**-**	**(1,903)**	**4,154,899**

	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	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**

Movement in credit loss allowances

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	(762)	(109)	10	-	11	-	(850)
Stage 2	(474)	-	-	(524)	(55)	-	(1,053)
Stage 3	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-
Total	**(1,236)**	**(109)**	**10**	**(524)**	**(44)**	**-**	**(1,903)**

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

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 2022 or initial recognition date) to Stages 2 or 3 at 31 December 2022 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 2022 and not fully derecognized by 31 December 2022 amounts to EUR 377.5 million (2021: EUR 410.2 million). The gross carrying amounts of amortised cost debt securities that were held at 1 January 2022 and derecognized during the year 2022 amounts to EUR 76.1 million (2021: EUR 160.9 million).

Loans and advances to banks

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 31.12.2022											
Credit institutions	24	2	-	-	26	-	-	-	-	-	26
Total	**24**	**2**	**-**	**-**	**26**	**-**	**-**	**-**	**-**	**-**	**26**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2022.

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											
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.

Movement in credit loss allowances

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	(42)	-	-	-	42	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-
Total	**(42)**	**-**	**-**	**-**	**42**	**-**	**-**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2021
Stage 1	-	(76)	21	-	13	-	(42)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-
Total	**-**	**(76)**	**21**	**-**	**13**	**-**	**(42)**

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 2022 and not fully de-recognized by 31 December 2022 amounts to EUR 0.0 million (2021: EUR 50.0 million). The gross carrying amounts of amortised cost loans and advances to banks that were held as of 1 January 2022 and fully de-recognized during the year 2022 amounts to EUR 50.0 million (2021: 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 31.12.2022											
General governments	336,663	601	-	-	337,264	(524)	(19)	-	-	(543)	336,721
Other financial corporations	135,211	86,621	127	21	221,980	(240)	(842)	(91)	(1)	(1,174)	220,806
Non-financial corporations	3,017,191	1,672,489	67,864	94,960	4,852,504	(14,110)	(71,822)	(42,428)	(29,358)	(157,718)	4,694,786
Households	11,762,304	470,091	202,752	4,428	12,439,575	(27,756)	(36,573)	(116,175)	(2,107)	(182,611)	12,256,964
Total	**15,251,369**	**2,229,802**	**270,743**	**99,409**	**17,851,323**	**(42,630)**	**(109,256)**	**(158,694)**	**(31,466)**	**(342,046)**	**17,509,277**

The amounts represent the maximum exposure to credit risk. As at 31 December 2022 the Bank had no reverse repo agreements.

As at 31 December 2022, 15 largest customers accounted for 5.5% of the gross loan portfolio amounting to EUR 970.0 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 31.12.2021											
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**

As at 31 December 2021, 15 largest customers accounted for 5.3% of the gross loan portfolio amounting to EUR 819.0 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 31.12.2022											
Loans and advances to customers	**15,251,369**	**2,229,802**	**270,743**	**99,409**	**17,851,323**	**(42,630)**	**(109,256)**	**(158,694)**	**(31,466)**	**(342,046)**	**17,509,277**
Lending for house purchase	9,917,059	284,914	137,315	2,815	10,342,103	(18,578)	(19,242)	(66,070)	(1,114)	(105,004)	10,237,099
Credit for consumption	1,259,115	151,630	57,039	219	1,468,003	(8,039)	(14,493)	(42,704)	(84)	(65,320)	1,402,683
Corporate loans and others	4,075,195	1,793,258	76,389	96,375	6,041,217	(16,013)	(75,521)	(49,920)	(30,268)	(171,722)	5,869,495
Total	**15,251,369**	**2,229,802**	**270,743**	**99,409**	**17,851,323**	**(42,630)**	**(109,256)**	**(158,694)**	**(31,466)**	**(342,046)**	**17,509,277**

	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											
Loans and advances to customers	**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**
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**

Movement in credit loss allowances

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

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	**(39,859)**	**(37,325)**	**1,013**	**22,362**	**11,006**	**173**	**(42,630)**
General governments	(411)	(399)	-	41	245	-	(524)
Other financial corporations	(317)	(2,354)	-	851	1,580	-	(240)
Non-financial corporations	(13,821)	(25,550)	200	10,446	14,609	6	(14,110)
Households	(25,310)	(9,022)	813	11,024	(5,428)	167	(27,756)
Stage 2	**(110,714)**	**(1,473)**	**418**	**(42,066)**	**44,138**	**441**	**(109,256)**
General governments	(17)	-	-	(53)	51	-	(19)
Other financial corporations	(2,610)	-	-	(411)	2,179	-	(842)
Non-financial corporations	(70,896)	(1,132)	301	(27,161)	27,041	25	(71,822)
Households	(37,191)	(341)	117	(14,441)	14,867	416	(36,573)
Stage 3	**(157,658)**	**(608)**	**16,572**	**(6,018)**	**(21,483)**	**10,501**	**(158,694)**
Other financial corporations	(36)	-	8	(1)	(62)	-	(91)
Non-financial corporations	(36,292)	(566)	4,443	(980)	(10,033)	1,000	(42,428)
Households	(121,330)	(42)	12,121	(5,037)	(11,388)	9,501	(116,175)
POCI	**(21,919)**	**-**	**215**	**-**	**(10,336)**	**574**	**(31,466)**
Other financial corporations	(1)	-	-	-	-	-	(1)
Non-financial corporations	(20,168)	-	49	-	(9,314)	75	(29,358)
Households	(1,750)	-	166	-	(1,022)	499	(2,107)
Total	**(330,150)**	**(39,406)**	**18,218**	**(25,722)**	**23,325**	**11,689**	**(342,046)**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	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)**
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)**
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	**(380,487)**	**(35,544)**	**51,957**	**(7,765)**	**31,796**	**9,893**	**(330,150)**

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

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	**(39,859)**	**(37,325)**	**1,013**	**22,362**	**11,006**	**173**	**(42,630)**
Lending for house purchase	(18,418)	(354)	472	8,661	(8,964)	25	(18,578)
Credit for consumption	(5,960)	(8,924)	154	1,764	4,804	123	(8,039)
Corporate loans and others	(15,481)	(28,047)	387	11,937	15,166	25	(16,013)
Stage 2	**(110,714)**	**(1,473)**	**418**	**(42,066)**	**44,138**	**441**	**(109,256)**
Lending for house purchase	(21,341)	(25)	53	(6,699)	8,769	1	(19,242)
Credit for consumption	(13,380)	(2)	48	(6,320)	4,945	216	(14,493)
Corporate loans and others	(75,993)	(1,446)	317	(29,047)	30,424	224	(75,521)
Stage 3	**(157,658)**	**(608)**	**16,572**	**(6,018)**	**(21,483)**	**10,501**	**(158,694)**
Lending for house purchase	(65,073)	-	3,426	(2,987)	(2,508)	1,072	(66,070)
Credit for consumption	(48,420)	(37)	10,463	(1,789)	(10,513)	7,592	(42,704)
Corporate loans and others	(44,165)	(571)	2,683	(1,242)	(8,462)	1,837	(49,920)
POCI	**(21,919)**	**-**	**215**	**-**	**(10,336)**	**574**	**(31,466)**
Lending for house purchase	(459)	-	12	-	(667)	-	(1,114)
Credit for consumption	(76)	-	-	-	(17)	9	(84)
Corporate loans and others	(21,384)	-	203	-	(9,652)	565	(30,268)
Total	**(330,150)**	**(39,406)**	**18,218**	**(25,722)**	**23,325**	**11,689**	**(342,046)**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	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)	(10)	-	-	(308)	-	(459)
Credit for consumption	(85)	(1)	2	-	(18)	26	(76)
Corporate loans and others	(57,127)	11	268	-	34,613	851	(21,384)
Total	**(380,487)**	**(35,544)**	**51,956**	**(7,766)**	**31,798**	**9,893**	**(330,150)**

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 amortised 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 2022 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2022 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 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 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

EUR ths.	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	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
As of 31.12.2022						
General governments	421	278	-	-	-	-
Other financial corporations	103,020	6,580	94	-	2	-
Non-financial corporations	923,843	497,209	22,654	1,022	9,857	879
Households	207,288	127,987	44,721	10,672	27,860	11,628
Total	**1,234,572**	**632,054**	**67,469**	**11,694**	**37,719**	**12,507**
As of 31.12.2021						
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**

Detailed information on stage transfers due to COVID-19 measures are described in Note 24 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 2022 amounts to EUR 6,279.1 million (2021: EUR 4,233.2 million). The gross carrying amount of the amortised cost loans and advances to customers that were held at 1 January 2022 and fully de-recognized during the reporting period amounts to EUR 2,544.6 million (2021: EUR 1,711.7 million).

Mandate loans

During the year 2022 the Bank cooperated with 6 external companies (2021: 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 2022 the total amount of gross loans outsourced was EUR 76.6 million (2021: EUR 87.4 million). These loans were categorised in stage 3.

Write off and sale of receivables

During the year 2022 the Bank sold loan receivables in the amount of EUR 41.3 million (2021: EUR 56.3 million) for a consideration of EUR 18.0 million (2021: EUR 15.0 million) and used the corresponding allowances amounting EUR 20.7 million (2021: EUR 38.1 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 2022 the Bank has written off loans and finance lease receivables in the amount of EUR 12.3 million (2021: EUR 11.1 million) and used the respective allowances amounting EUR 11.3 million (2021: EUR 10.3 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 31.12.2022											
General governments	1,823	-	-	-	1,823	-	-	-	-	-	1,823
Credit institutions	4,582	-	-	-	4,582	-	-	-	-	-	4,582
Other financial corporations	2,222	-	-	-	2,222	(23)	-	-	-	(23)	2,199
Non-financial corporations	143,710	3,858	4,938	752	153,258	(604)	(956)	(4,379)	(468)	(6,407)	146,851
Households	71	-	-	-	71	-	-	-	-	-	71
Total	**152,408**	**3,858**	**4,938**	**752**	**161,956**	**(627)**	**(956)**	**(4,379)**	**(468)**	**(6,430)**	**155,526**

	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	(1,789)	(4)	(4,747)	-	(6,540)	124,143
Households	1	-	-	-	1	-	-	-	-	-	1
Total	**129,501**	**1,158**	**4,860**	**-**	**135,519**	**(1,838)**	**(4)**	**(4,747)**	**-**	**(6,589)**	**128,930**

Movement in credit loss allowances

EUR ths.	01.01.2022	Additions	Derecognitions	Other changes in credit risk (net)	Transfers between stages	31.12.2022
Stage 1	**(1,838)**	**(686)**	**102**	**1,795**	**-**	**(627)**
General governments	(1)	-	-	1	-	-
Other financial corporations	(48)	(23)	-	48	-	(23)
Non-financial corporations	(1,789)	(663)	102	1,746	-	(604)
Stage 2	**(4)**	**-**	**-**	**(16)**	**(936)**	**(956)**
Non-financial corporations	(4)	-	-	(16)	(936)	(956)
Stage 3	**(4,747)**	**-**	**-**	**515**	**(147)**	**(4,379)**
Non-financial corporations	(4,747)	-	-	515	(147)	(4,379)
POCI	**-**	**-**	**-**	**(468)**	**-**	**(468)**
Non-financial corporations	-	-	-	(468)	-	(468)
Total	**(6,589)**	**(686)**	**102**	**1,826**	**(1,083)**	**(6,430)**

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.	01.01.2021	Additions	Other changes in credit risk (net)	Transfers between stages	Write offs	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)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2021	2022
Transfers between Stage 1 and Stage 2	**1,158**	**3,141**
To Stage 2 from Stage 1	1,158	3,141
To Stage 1 from Stage 2	-	-
Transfers between Stage 2 and Stage 3	**121**	**220**
To Stage 3 from Stage 2	121	220
To Stage 2 from Stage 3	-	-
Transfers between Stage 1 and Stage 3	**749**	**623**
To Stage 3 from Stage 1	749	623
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.	31.12.2021	31.12.2022
Overnight deposits	3,827	4,411
Term deposits	2,889,520	1,169,217
Deposits from banks	**2,893,347**	**1,173,628**

Financial liabilities stemming from the TLTRO programme of the ECB are presented under 'Term deposits´. The Bank assessed an appropriate accounting treatment of the TLTRO. 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 organised by the ECB as part of its monetary policy. As a result, the IFRS 9 amortised cost accounting treatment applies.

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´.

The Bank treats TLTRO as floating rate instruments in respect of changes in the ECB key rates which are the deposit facility rate (DFR) or the main refinancing operation rate. Whenever the ECB changes the key rates the effective interest rate of the TLTRO is recalculated assuming that the current ECB rate will apply until the end of the respective TLTRO tranche life. If the ECB brings any unconditional changes to the TLTRO interest rate other than changes in the key rates which would also involve changes in how the interest rate is calculated, they are treated as catch-up adjustments and presented in the 'Net interest income´.

In October 2022 the ECB announced a change in the method for applying the key ECB rates for TLTRO III tranches. For the Bank this means that the current DFR applies from 23 November 2022 (instead of the average DFR calculated over the entire 3-year life of the TLTRO III tranches). This resulted in a recognition of a catch-up loss in the amount of EUR 6.6 million in 2022. Early redemptions of the tranches in November 2022 resulted in a positive catch up effect amounting to EUR 2.6 million. In 2021 the Bank recognised a catch-up adjustment gain in the amount of EUR 12.9 million. This resulted from the assessment that it will meet the 0% lending threshold as the qualifying condition for the interest rate reduction by 50bp in the period between June 2021 and June 2022.

The carrying amount of the TLTRO III liabilities was EUR 999.7 million at the end of 2022 (2021: EUR 2,718.8 million). The main reason for the decrease in 2022 were early redemptions of TLTRO III tranches in the nominal amount of EUR 1,750 million. At 2022 year end the Bank considered that additional early redemptions are not likely and recognised no catch up adjustment gain/loss in that respect.

In 2022 the interest expense recognised for TLTRO III loss was EUR 6.6 million. The negative interest expense amounted to EUR 9.0 million (2021: negative interest expense EUR 27.8 million, including the catch up adjustment gain of EUR 12.9 million).

Deposits from customers

EUR ths.	31.12.2021	31.12.2022
Overnight deposits	**11,100,006**	**11,209,378**
Non-savings deposits	11,100,006	11,209,378
General governments	167,730	161,181
Other financial corporations	355,226	298,745
Non-financial corporations	2,094,810	2,292,106
Households	8,482,240	8,457,346
Term deposits	**4,877,309**	**5,710,791**
Deposits with agreed maturity	851,771	1,756,183
Non-savings deposits	851,771	1,756,183
General governments	417	345,457
Other financial corporations	7,261	408,914
Non-financial corporations	91,931	459,027
Households	752,162	542,785
Deposits redeemable at notice	4,025,538	3,954,608
Households	4,025,538	3,954,608
Deposits from customers	**15,977,315**	**16,920,169**
General governments	168,147	506,638
Other financial corporations	362,487	707,659
Non-financial corporations	2,186,741	2,751,133
Households	13,259,940	12,954,739

DEBT SECURITIES ISSUED

EUR ths.	31.12.2021	31.12.2022
Subordinated debt securities issues	51,241	22,134
Senior non-preferred bonds	30,687	30,687
Other debt securities issued	1,863,933	2,935,613
Bonds	487,704	878,857
Mortgage covered bonds	1,376,229	2,056,756
Debt securities issued	**1,945,861**	**2,988,434**

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.	31.12.2021	31.12.2022
Debt securities issued		
Opening balance as at 1 January	2,051,731	1,945,861
Cash-flows reported within financing activities	(73,174)	1,163,344
Non-cash adjustments	(32,696)	(120,771)
Closing balance as at 31 December	1,945,861	2,988,434
Lease liability		
Opening balance as at 1 January	39,878	32,333
Cash-flows reported within financing activities	(13,753)	(14,446)
Non-cash adjustments	6,208	63,831
Closing balance as at 31 December	32,333	81,718

Non-cash adjustments represent 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 statement of financial position 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	2021	2022
Subordinated Bonds	November 2011	November 2023	4.58%	4,250	1,000	EUR	6,083	6,353
Subordinated Bonds	June 2012	June 2022	-	11,000	1,000	EUR	16,999	-
Subordinated Bonds	November 2012	November 2022	-	9,000	1,000	EUR	12,399	1
Subordinated Bonds	September 2018	September 2028	2.88%	33	100,000	EUR	3,327	3,326
Subordinated Bonds	September 2018	September 2028	3.67%	33	100,000	EUR	3,314	3,335
Subordinated Bonds	November 2018	November 2028	2.45%	91	100,000	EUR	9,119	9,119
Total							**51,241**	**22,134**

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 1.88% and maturity date in February 2026 in the total amount of EUR 30.7 million as at 31 December 2022 (2021: EUR 30.7 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 semi annual 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 2022 other debt securities issued included embedded derivatives (equity and commodities) in the amount of EUR 0.0 million (2021: 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	2021	2022
Senior Unsecured Bonds	June 2019	December 2025	0.60%	5,572	1,000	EUR	5,574	5,473
Senior Unsecured Bonds	June 2019	June 2022	-	3,653	1,000	USD	3,261	-
Covered Bonds	June 2019	June 2026	0.13%	5,000	100,000	EUR	498,034	472,138
Senior Unsecured Bonds	February 2020	February 2024	0.00%	170	100,000	EUR	17,000	17,000
Senior Unsecured Bonds	March 2020	March 2025	0.00%	53	2,000,000	CZK	4,105	4,282
Senior Unsecured Bonds	June 2020	June 2025	0.80%	4,930	1,000	EUR	4,950	4,788
Senior Unsecured Bonds	June 2020	June 2023	0.70%	4,947	1,000	EUR	4,965	4,939
Senior Unsecured Bonds	June 2020	June 2025	0.63%	45	100,000	EUR	4,504	4,507
Senior Unsecured Bonds	August 2020	August 2023	0.35%	4,907	1,000	EUR	4,913	4,875
Senior Unsecured Bonds	October 2020	October 2025	0.25%	1,000	100,000	EUR	99,583	99,708
Senior Unsecured Bonds	March 2021	March 2027	2.19%	1,000	100,000	EUR	102,348	102,513
Senior Unsecured Bonds	June 2021	June 2024	0.60%	1,299	1,000	USD	1,151	1,222
Senior Unsecured Bonds	June 2021	June 2028	0.38%	1,302	100,000	EUR	129,610	152,571
Covered Bonds	July 2007	July 2027	4.95%	250	66,388	EUR	21,482	18,144
Covered Bonds	January 2013	January 2025	3.10%	87	50,000	EUR	4,412	4,411
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 2022	-	220	50,000	EUR	11,166	-
Covered Bonds	February 2015	February 2022	-	350	100,000	EUR	35,279	-
Covered Bonds	August 2015	August 2025	1.38%	100	100,000	EUR	10,027	10,035
Covered Bonds	August 2015	August 2022	-	100	100,000	EUR	10,037	-
Covered Bonds	March 2016	March 2026	1.00%	90	100,000	EUR	9,026	9,036
Senior Unsecured Bonds	March 2017	March 2022	-	4,288	1,000	EUR	4,308	-
Covered Bonds	March 2017	March 2025	0.75%	1,000	100,000	EUR	100,477	100,521
Senior Unsecured Bonds	April 2017	April 2022	-	4,336	1,000	EUR	4,354	-
Senior Unsecured Bonds	April 2017	April 2022	-	30	100,000	EUR	3,013	-
Senior Unsecured Bonds	May 2017	May 2022	-	4,272	1,000	EUR	4,287	-
Covered Bonds	June 2017	June 2022	-	50	100,000	EUR	5,009	-
Senior Unsecured Bonds	July 2017	July 2022	-	4,342	1,000	EUR	4,353	-
Senior Unsecured Bonds	August 2017	August 2022	-	4,130	1,000	EUR	4,140	-
Senior Unsecured Bonds	September 2017	September 2022	-	8,908	1,000	EUR	8,922	-
Senior Unsecured Bonds	September 2017	September 2022	-	4,410	1,000	EUR	4,418	-
Covered Bonds	October 2017	October 2022	-	1,500	100,000	EUR	150,131	-
Senior Unsecured Bonds	November 2017	November 2022	-	4,861	1,000	USD	4,303	-
Senior Unsecured Bonds	November 2017	November 2027	1.38%	44	100,000	EUR	4,403	4,404
Senior Unsecured Bonds	February 2018	February 2023	0.65%	8,878	1,000	EUR	8,930	8,648
Senior Unsecured Bonds	February 2018	February 2023	2.15%	3,583	1,000	USD	3,224	3,264
Senior Unsecured Bonds	March 2018	March 2023	0.65%	9,309	1,000	EUR	9,355	9,120
Senior Unsecured Bonds	June 2018	June 2024	0.75%	4,608	1,000	EUR	4,626	4,446
Senior Unsecured Bonds	August 2018	August 2024	0.70%	4,621	1,000	EUR	4,632	4,494
Covered Bonds	August 2018	August 2025	0.63%	2,500	100,000	EUR	256,069	233,245
Senior Unsecured Bonds	September 2018	September 2024	0.70%	4,530	1,000	EUR	4,539	4,427
Senior Unsecured Bonds	November 2018	November 2024	0.75%	4,699	1,000	EUR	4,702	4,662
Senior Unsecured Bonds	December 2018	December 2024	0.75%	4,794	1,000	EUR	4,797	4,575
Covered Bonds	December 2018	December 2024	0.50%	2,500	100,000	EUR	253,566	235,947
Senior Unsecured Bonds	February 2019	February 2025	0.70%	9,490	1,000	EUR	9,547	9,172
Senior Unsecured Bonds	March 2019	March 2025	0.00%	100	50,000	EUR	4,891	4,925

The table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2021	2022
Covered Bonds	April 2022	April 2027	1.13%	5,000	100,000	EUR	-	459,330
Senior Unsecured Bonds	May 2022	May 2026	2.00%	19,971	1,000	EUR	-	20,219
Senior Unsecured Bonds	June 2022	June 2025	2.70%	29,947	1,000	EUR	-	30,220
Senior Unsecured Bonds	July 2022	December 2029	5.00%	285	200,000	USD	-	50,144
Senior Unsecured Bonds	September 2022	September 2025	3.00%	39,961	1,000	EUR	-	40,263
Covered Bonds	October 2022	April 2028	3.50%	5,000	100,000	EUR	-	502,435
Senior Unsecured Bonds	October 2022	April 2026	3.30%	49,986	1,000	EUR	-	50,276
Senior Unsecured Bonds	October 2022	October 2025	4.35%	4,999	1,000	USD	-	4,723
Senior Unsecured Bonds	October 2022	October 2034	4.88%	210	100,000	EUR	-	21,612
Senior Unsecured Bonds	October 2022	October 2025	4.63%	250	100,000	EUR	-	25,145
Senior Unsecured Bonds	October 2022	October 2025	3.90%	50	100,000	EUR	-	5,036
Senior Unsecured Bonds	November 2022	November 2025	4.50%	3,759	1,000	USD	-	3,540
Senior Unsecured Bonds	November 2022	November 2024	3.50%	49,986	1,000	EUR	-	50,142
Senior Unsecured Bonds	November 2022	May 2026	3.50%	1,130	100,000	EUR	-	113,522
Total							**1,863,933**	**2,935,613**

In May 2020 the Bank issued retained covered bond in the value of 500 mil. EUR with interest rate 0.125% and maturity of 7.5 years, which was not placed in the market and according to IFRS is therefore not possible to recognize this bond in the statement of financial position. In June 2022, the Bank issued another retained covered bond in the value of 500 mil. EUR with an interest rate of 2.00% and maturity of 6 years, which was also not placed in the market and, according to IFRS, it is therefore not possible to recognize this bond in the statement of financial position. Subsequently these covered bonds were used as collateral for obtaining term deposit from TLTRO III. See also Note 21 Collaterals.

OTHER FINANCIAL LIABILITIES

As at 31 December 2022 other financial liabilities in amount of EUR 113.8 million (2021: EUR 36.5 million) represent unpaired payments from other banks.

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 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 statement of financial position, 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 statement of financial position 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 statement of financial position 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 statement of financial position, 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 statement of financial position. 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

	31.12.2021			31.12.2022		
EUR ths.	**Notional value**	**Positive fair value**	**Negative fair value**	**Notional value**	**Positive fair value**	**Negative fair value**
Derivatives held in the trading book	**2,505,756**	**47,874**	**46,131**	**2,911,586**	**77,139**	**73,533**
Interest rate	2,063,330	11,392	10,473	2,434,047	50,717	48,613
Foreign exchange	442,426	36,482	35,658	477,539	26,422	24,920
Total gross amounts	**2,505,756**	**47,874**	**46,131**	**2,911,586**	**77,139**	**73,533**

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 statement of financial position 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

	31.12.2021		31.12.2022	
EUR ths.	Designated at fair value	Mandatorily at fair value	Designated at fair value	Mandatorily at fair value
Equity instruments	-	7,155	-	9,694
Debt securities	-	13,909	-	12,149
Other financial corporations	-	7,913	-	7,512
Non-financial corporations	-	5,996	-	4,637
Non-trading financial assets at fair value through profit or loss		**21,064**		**21,843**

´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 statement of financial position 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 modelling 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 methods.

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 0.7 million at 31. December 2022 (2021: EUR 3.1 million) and the total DVA-adjustment amounted to EUR 1.1 million (2021: EUR 0.9 million).

Based on an analysis carried out by the Bank 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 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 statement of financial position 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
	31.12.2021				31.12.2022			
Assets								
Financial assets HfT	-	47,874	-	47,874	-	77,139	-	77,139
Derivatives	-	47,874	-	47,874	-	77,139	-	77,139
Non-trading financial assets at FVPL	-	-	21,065	21,065	960	4,637	16,246	21,843
Equity instruments	-	-	7,155	7,155	-	-	9,694	9,694
Debt securities	-	-	13,910	13,910	960	4,637	6,552	12,149
Hedge accounting derivatives	-	16,454	-	16,454	-	16,878	-	16,878
Total assets	**-**	**64,328**	**21,065**	**85,393**	**960**	**98,654**	**16,246**	**115,860**
Liabilities								
Financial liabilities HfT	-	46,131	-	46,131	-	73,533	-	73,533
Derivatives	-	46,131	-	46,131	-	73,533	-	73,533
Hedge accounting derivatives	-	31,844	-	31,844	-	103,266	-	103,266
Total liabilities	**-**	**77,975**	**-**	**77,975**	**-**	**176,799**	**-**	**176,799**

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 2022 were immaterial and in 2021 as well.

Movements in Level 3

Development of fair value of financial instruments in Level 3

EUR ths.	01.01.2022	Gain/loss in profit or loss	Purchases	Sales	Settlements	Transfer out of Level 3	Currency translation	31.12.2022
Assets								
Non-trading financial assets at FVPL	21,064	(2,859)	4,147	(500)	(9)	(5,597)	-	16,246
Equity instruments	7,155	1,645	894	-	-	-	-	9,694
Debt securities	13,909	(4,504)	3,253	(500)	(9)	(5,597)	-	6,552
Total assets	**21,064**	**(2,859)**	**4,147**	**(500)**	**(9)**	**(5,597)**	**-**	**16,246**

EUR ths.	01.01.2021	Gain/loss in profit or loss	Purchases	Sales	Settlements	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**

Transfers into and out of Level 3 mainly result from changes in valuation models with observable or non-observable parameters.

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

EUR ths.	31.12.2021	31.12.2022
Assets		
Non-trading financial assets at FVPL	(317)	3,102
Equity instruments	(427)	1,645
Debt securities	110	1,457
Total assets	**(317)**	**3,102**

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 statement of financial position 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)
31.12.2022					
Financial assets at FVPL	Non-trading equity instruments (participations)	9.69	Approved budgets	Risk spread used in discounting future cash flows	N/A
	Non-trading debt instrument	3.06	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	2023-2030
				Risk spread used in discounting future cash flows	50bp
		3.49	Theoretical price with some expert opinion (market unobservable) inputs	Risk spread used in discounting future cash flows	105bp
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

Sensitivity analysis using reasonably possible alternatives per product type*

	31.12.2021		31.12.2022	
	Fair value changes		Fair value changes	
Eur mil.	**Positive**	**Negative**	**Positive**	**Negative**
Debt securities	0.272	(0.253)	-	-
Income statement	0.272	(0.253)	-	-
Total	0.272	(0.253)	-	-
Income statement	0.272	(0.253)	-	-

*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 shift 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
31.12.2022					
Assets					
Cash and cash balances	1,254,543	1,254,543	339,594	914,949	-
Financial assets at AC	21,664,202	21,211,700	3,516,465	298,552	17,396,683
Loans and advances to banks	26	26	-	-	26
Loans and advances to customers	17,509,277	17,353,518	-	-	17,353,518
of which: Lending for house purchase	10,237,101	10,195,492	-	-	10,195,492
of which: Credit for consumption	1,402,684	1,391,450	-	-	1,391,450
of which: Corporate loans and others	5,869,492	5,766,576	-	-	5,766,576
Debt securities	4,154,899	3,858,156	3,516,465	298,552	43,139
Finance lease receivables	284,500	266,208	-	-	266,208
Trade and other receivables	155,526	153,924	-	-	153,924
Liabilities					
Financial liabilities at AC	21,196,021	20,853,505	502,219	1,895,563	18,455,723
Deposits from banks	1,173,628	1,170,748	-	-	1,170,748
Deposits from customers	16,920,169	16,662,708	-	-	16,662,708
Debt securities in issue	2,988,434	2,906,259	502,219	1,895,563	508,477
Other financial liabilities	113,790	113,790	-	-	113,790
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
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

As at 31 December 2022 fair value of financial guarantees given amounts EUR -0.5 million (2021: EUR -0.5 million) and fair value of irrevocable commitments given amounts EUR 134.8 million (2021: EUR 5.0 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, of finance lease receivables and of trade and other receivables 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 statement of financial position, 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

EUR ths.	Type of hedged items	Notional amount	
		31.12.2021	31.12.2022
Fair value hedges		**1,095,521**	**1,969,962**
Assets	Bonds at AC	331,224	331,224
Liabilities	Issued bonds	764,297	1,638,738

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 2022 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 statement of financial position.

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
31.12.2022								
Fair value hedges	**16,879**	**103,266**	**(73,419)**	**1,969,961**	**40,000**	**-**	**1,455,521**	**474,441**
Interest rate risk	16,879	103,266	(73,419)	1,969,961	40,000	-	1,455,521	474,441
Total gross amounts	**16,879**	**103,266**	**(73,419)**	**1,969,961**	**40,000**	**-**	**1,455,521**	**474,441**
Offset	-	-	-	-	-	-	-	-
Total	**16,879**	**103,266**	**(73,419)**	**1,969,961**	**40,000**	**-**	**1,455,521**	**474,441**
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**

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
31.12.2022			
Financial assets at AC	**328,278**	**(15,845)**	**(41,852)**
Interest rate risk	328,278	(15,845)	(41,852)
Financial liabilities at AC	**(1,540,228)**	**101,448**	**116,201**
Interest rate risk	(1,540,228)	101,448	116,201
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

The hedged items are disclosed in the following line items in the statement of financial position:

- 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.

Fair value hedge of assets

As at 31 December 2022 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 (2021: EUR 331.2 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 2022 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 41.9 million (2021: net gain EUR 15.0 million). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to EUR 41.9 million (2021: net loss EUR 14.9 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 2022 the Bank holds covered bonds in total nominal value of EUR 1,638.7 million (2021: EUR 764.3 million).

During the year 2022 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 115.3 million (2021: net loss EUR 18.0 million). On the other hand, a net gain on the hedged item attributable to the hedged risk amounted to EUR 116.2 million (2021: net gain EUR 18.0 million).

20. OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position 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 statement of financial position 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 statement of financial position (net)	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Other financial collateral received	
31.12.2022							
Derivatives	77,138	-	77,138	21,633	-	-	55,505
Hedge accounting	16,879	-	16,879	15,354	-	-	1,525
Total	**94,017**	**-**	**94,017**	**36,987**	**-**	**-**	**57,030**
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**

Financial liabilities subject to offsetting and potential offsetting agreements

EUR ths.	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in statement of financial position (net)	Potential effects of netting agreements not qualifying for statement of financial position offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Other financial collateral pledged	
31.12.2022							
Derivatives	73,533	-	73,533	21,633	-	-	51,900
Hedge accounting	103,266	-	103,266	15,354	-	86,080	1,832
Total	**176,799**	**-**	**176,799**	**36,987**	**-**	**86,080**	**53,732**
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**

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.

21. COLLATERALS

Carrying amount of financial assets pledged as collaterals

EUR ths.	31.12.2021	31.12.2022
Financial assets at AC	4,323,689	3,914,419
Total	**4,323,689**	**3,914,419**

	Carrying amount of transferred assets				Carrying amount of associated liabilities	
EUR ths.	Total	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Other associated liabilities
As of 31.12.2022						
Financial assets at amortised cost						
Debt securities	**520,107**	86,080	50,128	383,899	**470,127**	470,127
Loans and advances to customers	**3,394,312**	-	2,283,883	1,110,429	**2,711,750**	2,711,750
Assets pledged as collateral	**3,914,419**	**86,080**	**2,334,011**	**1,494,328**	**3,181,877**	**3,181,877**

	Carrying amount of transferred assets				Carrying amount of associated liabilities	
EUR ths.	Total	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Other associate d 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**

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 refinancing transactions with the respective National Bank, loans backing issued mortgage bonds and other collateral arrangements.

In March 2021, the Bank entered into TLTRO III with central bank in the amount of EUR 1,000 million which was shown within other associated liabilities. At 23 November 2022 the Bank partially repaid this tranche in amount of EUR 250 million. The Bank has pledged SK government bond (EUR 11.5 million), own retained covered bond (EUR 1.000 million) where mortgage loans are shown as encumbered assets (EUR 1,110 million) as collateral to TLTRO III. The collateral is shown within other transferred assets.

In June 2021, the Bank entered into TLTRO III 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 372.4 million) as collateral to TLTRO III. The collateral is shown within other transferred assets.

RISK AND CAPITAL MANAGEMENT

22. 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.

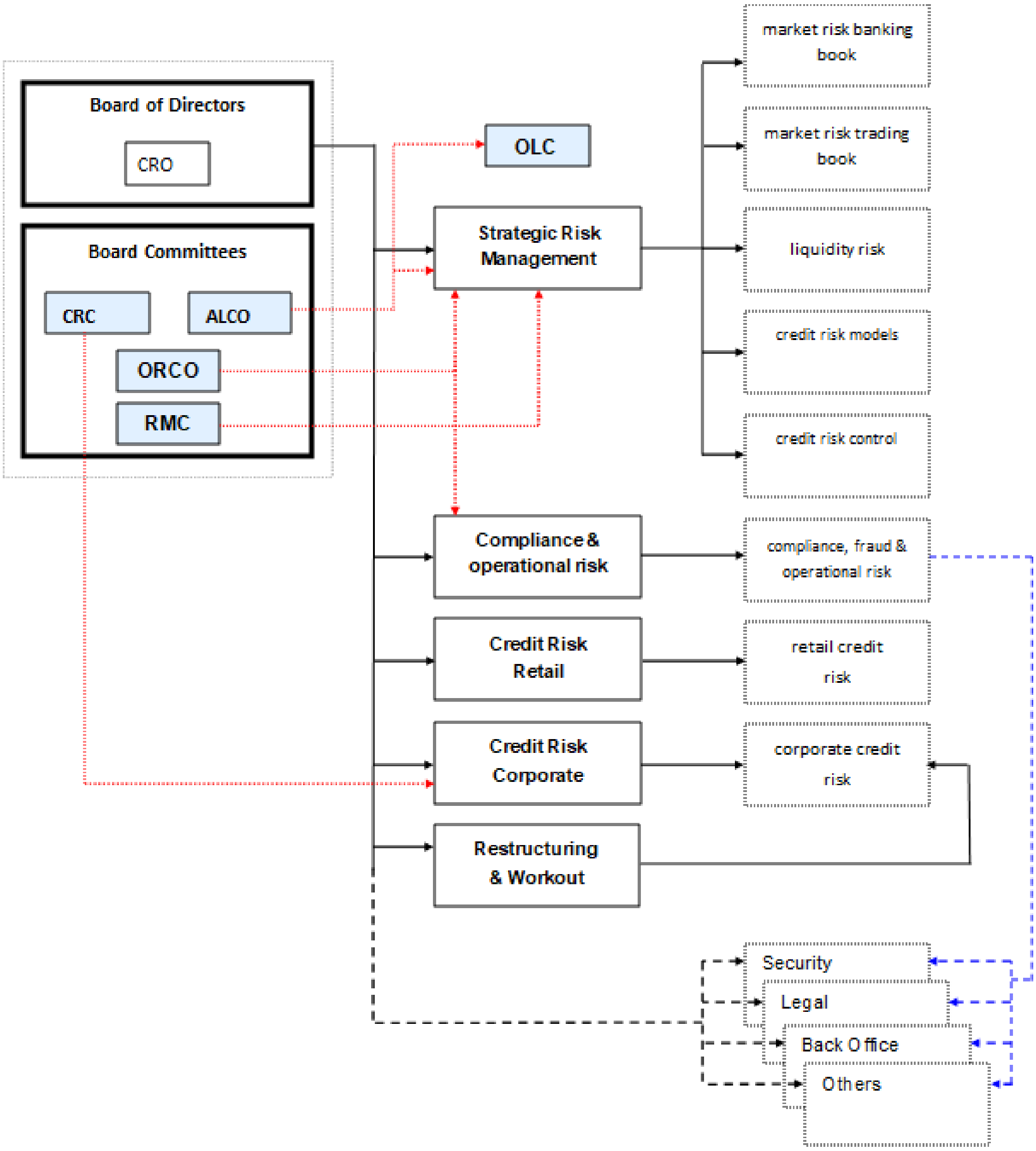
The Bank has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed. The risk strategy is consistent with the business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

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 organisational 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 organisation 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, organisation 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 organisational 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 (RMA)
- Risk-bearing capacity calculation (RCC)
- Stress testing
- Capital allocation and performance 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 in trading book, FX in banking book 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 2022 the utilization of the economic capital was in the range 52 - 56%.

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.

23. OWN FUNDS AND CAPITAL REQUIREMENTS

Regulatory requirements

Since 1 January 2014 the Group has been calculating the regulatory capital and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU). 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 all regulatory capital requirements during the year 2022 and throughout the year 2021 consisting of 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. Eligible capital components derive from the statement of financial position 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.

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 according to CRR consist of CET1, additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk amount

The regulatory minimum capital ratios including the capital buffers as of 31 December 2022 amount to:

- 9.99% for CET1 (CET1 Pillar 1 requirement 4.5%, capital conservation buffer 2.5%, Other Systemic Important Institution (O-SII) buffer 2% , and countercyclical capital buffer specific for the bank 0.99%),
- 11.49% for tier 1 capital (sum of CET1 and AT1)
- 13.49% for total own funds.

Capital buffer requirements are set out in Act on Banks 483/2001

- capital conservation buffer Article 33b
- Global Systemic Important Institution (G-SII) Article 33a and Article 33d(5)
- Other Systemic Important Institution (O-SII) buffer Article 33a and Article 33d(6)
- systemic risk buffer Article 33a, Article 33e
- countercyclical buffer Article 33a, Article 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).

As a result of the 2021 SREP process performed by the European Central Bank (ECB) the Bank applies a Pillar 2 requirement (P2R) of 1.5% as of 31. December 2022. The minimum CET1 ratio of 5.34% encompasses the Pillar 1 minimum requirement of 4.5% and the Pillar 2 requirement of 0.84% (56.25% of 1.5%) as of 31. December 2022.

The regulatory minimum capital ratios including the capital buffers and SREP requirements as of 31 December 2022 amount to:

- a CET1 requirement of 10.83%, (Pillar 1 requirement of 4.5%, combined capital buffers of 5.49% and 56.25% of 1.5% Pillar 2 requirement)
- a T1 requirement of 12.62% (Pillar 1 T1 requirement of 6%, combined capital buffers of 5.49% and 75% of 1.5% Pillar 2 requirement)
- a total own funds requirement of 14.99% (Pillar 1 own funds requirement of 8%, combined capital buffers of 5.49% 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.

	31.12.2021	31.12.2022
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%**	**5.49%**
Capital conservation buffer	2.50%	2.50%
Institution-specific countercyclical capital buffer	0.98%	0.99%
Systemic risk buffer (SRB)	1.00%	0.00%
O-SII capital buffer	1.00%	2.00%
Minimum CET 1 requirement (incl. CBR)	9.98%	9.99%
Minimum Tier 1 requirement (incl. CBR)	11.48%	11.49%
Minimum Own Funds requirement (incl. CBR)	13.48%	13.49%
Pillar2		
Minimum CET1 requirement	0.84%	0.84%
Minimum T1 requirement	1.13%	1.13%
Minimum Own Funds requirement	1.50%	1.50%
Total CET1 requirement for Pillar 1 and Pillar 2	**10.82%**	**10.83%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**12.61%**	**12.62%**
Total Own Funds requirement for Pillar 1 and Pillar 2	**14.98%**	**14.99%**

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):

in EUR ths.	31.12.2021	31.12.2022
Common equity tier 1 capital (CET1)		
Capital instruments eligible as CET1	212,000	212,000
Retained earnings	1,193,241	1,318,464
Accumulated other comprehensive income	(1,750)	(956)
Common equity tier 1 capital (CET1) before regulatory adjustments	**1,403,491**	**1,529,509**
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(947)	(1,116)
Value adjustments due to the requirements for prudent valuation	(5,894)	(2,811)
Securitisation positions which can alternatively be subject to a 1.250% risk weight	(12,999)	(13,333)
Other intangible assets	(16,068)	(11,294)
Insufficient coverage for non-performing exposures	(32)	(35)
Additional deductions of CET1 Capital due to Article 3 CRR	(222)	(349)
Development of unaudited risk provisions during the year (EU No 183/2014)	(1,099)	(32,114)
Common equity tier 1 capital (CET1)	**1,366,230**	**1,468,456**
Additional tier 1 capital (AT1)		
Capital instruments eligible as AT1	380,000	380,000
Additional tier 1 capital (AT1)	**380,000**	**380,000**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**1,746,230**	**1,848,456**
Tier 2 capital (T2)		
Capital instruments and subordinated loans eligible as T2	19,686	16,412
IRB excess of provisions over expected losses eligible	44,489	50,900
T2 instruments of financial sector entities where the institution has a significant investment	(5,240)	(5,247)
Tier 2 capital (T2)	**58,935**	**62,065**
Total own funds	**1,805,165**	**1,910,521**
Capital requirement	**713,660**	**803,742**
CET1 capital ratio	**15.32%**	**14.62%**
Tier 1 capital ratio	**19.57%**	**18.40%**
Total capital ratio	**20.24%**	**19.02%**

The Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

	31.12.2021		31.12.2022	
EUR ths.	Total risk	Capital requirement	Total risk	Capital requirement
Total Risk Exposure Amount	**8,920,754**	**713,660**	**10,046,772**	**803,742**
Risk weighted assets (credit risk)	8,061,816	644,945	9,249,831	739,986
Standardised approach	543,422	43,474	662,965	53,036
IRB approach	7,414,859	593,188	8,483,331	678,667
Securitisation positions	103,535	8,283	103,535	8,283
Trading book, foreign FX risk and commodity risk	2,790	223	1,612	129
Operational Risk	846,590	67,727	788,357	63,069
Exposure for CVA	9,558	765	6,972	558

The Bank uses AMA model for calculation of RWA and capital requirements arising from operational risk. The calculation is performed on ERSTE Group level.

24. CREDIT RISK

In 2022, management attention was dedicated to the evolving Russia-Ukraine conflict, which poses serious threats to the European but also global economy. The Bank is not directly impacted, as it has no operating presence in geopolitical region of Russia or Ukraine and also direct exposure to these two markets is immaterial. Still, a number of ad hoc risk management activities were undertaken in order to evaluate, actively steer and mitigate indirect impact on the capital position and risk profile. All stress scenarios, including 'no gas from Russia', would have manageable impact on the Bank risk profile, keeping all capital ratios above the limits.

Environmental, Social and Governance (ESG) risks remained one of the top priorities also in 2022. Focus in risk was on advancements in implementation of initiatives to achieve compliance with regulatory requirements and expectations such as performance of the ECB

Climate Stress Test, improvements in the Carbon Footprint Calculation, development of methodologies for setting decarbonization targets for priority sectors, enhancement of Risk Materiality Assessment and reporting system, and incorporation of climate-related and environmental risks in credit risk processes.

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.

The Bank also considers ESG factors in its risk management and industry strategy framework (e.g. ESG Factor Heatmap as an input in respective industry strategies). The Bank has established an ESG risk framework and toolkit for assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes.

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´s 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 set out above. 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 statement of financial position items:

- cash and cash balances - other demand deposits to credit institutions;
- financial assets held for trading – derivatives, debt securities (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 hedge accounting derivatives;
- trade and other receivables;
- off-balance sheet positions (financial guarantees, irrevocable and revocable loan and other commitments given).

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 2021 and 31 December 2022, credit risk exposure increased from EUR 23,888 million to EUR 27,026 million. This is an increase of 13.11% or EUR 3,138 of which EUR 2,27 million increase was in on-balance and EUR 0,87 million in off-balance (of which Revocable part of off-balance was EUR 0,65 million, without impact on ECL). Revocable part of off-balance sheet represents EUR 1,938 million and irrevocable EUR 2,508 million. In 2021 revocable part of off-balance sheet represented EUR 1,290 million and irrevocable EUR 2,285 million.

Reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure

31.12.2022		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	15,512	-	-	-	-	-	15,512
Financial assets at amortised cost	22,008,151	43,479	110,310	158,695	31,465	-	21,664,202
Loans and advances to banks	26	-	-	-	-	-	26
Loans and advances to customers	17,851,323	42,629	109,257	158,695	31,465	-	17,509,277
of which: Lending for house purchase	10,342,105	18,578	19,242	66,070	1,114	-	10,237,101
of which: Credit for consumption	1,468,003	8,038	14,493	42,704	84	-	1,402,684
of which: Corporate loans and others	6,041,215	16,013	75,522	49,921	30,267	-	5,869,492
Debt securities	4,156,802	850	1,053	-	-	-	4,154,899
Finance lease receivables	288,141	394	509	2,727	11	-	284,500
Trade and other receivables	161,956	627	956	4,379	468	-	155,526
Non-trading financial assets at fair value through profit or loss - Debt securities	12,149	-	-	-	-	-	12,149
Financial assets - held for trading	77,139	-	-	-	-	-	77,139
Positive fair value of derivatives - hedge accounting	16,879	-	-	-	-	-	16,879
Total credit risk exposure on-balance	**22,579,927**	**44,500**	**111,775**	**165,801**	**31,944**	**-**	**22,225,907**
Off-balance	4,446,011	4,097	10,437	1,946	4,556	2,304	4,422,671
Total credit risk exposure	**27,025,938**	**48,597**	**122,212**	**167,747**	**36,500**	**2,304**	**26,648,578**

Allocation of credit loss allowances is affected by the war in Ukraine. 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 changes in collective assessment of credit loss allowances is provided in section Collective assessment.

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	3,575,425	5,358	7,444	572	11,277	1,134	3,549,642
Total credit risk exposure	**23,887,576**	**49,105**	**119,140**	**166,563**	**33,196**	**1,134**	**23,518,439**

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 114.99 million (2021: EUR 107.33 million), the defaulted part to EUR 11.16 million (2021: EUR 5.71 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
31.12.2022							
Cash and cash balances - other demand deposits	-	-	15,512	-	-	-	15,512
Financial assets at amortised cost	-	4,071,806	296,472	247,810	4,952,487	12,439,576	22,008,151
Loans and advances to banks	-	-	26	-	-	-	26
Loans and advances to customers	-	337,264	-	221,980	4,852,503	12,439,576	17,851,323
of which: Lending for house purchase	-	-	-	-	-	10,342,105	10,342,105
of which: Credit for consumption	-	-	-	-	-	1,468,003	1,468,003
of which: Corporate loans and others	-	337,264	-	221,980	4,852,503	629,468	6,041,215
Debt securities	-	3,734,542	296,446	25,830	99,984	-	4,156,802
Finance lease receivables	-	1,063	-	39	284,878	2,161	288,141
Trade and other receivables	-	1,822	4,582	2,222	153,259	71	161,956
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	7,512	4,637	-	12,149
Derivatives - held for trading	-	-	55,079	-	22,055	5	77,139
Positive fair value of derivatives - hedge accounting	-	-	16,879	-	-	-	16,879
Total credit risk exposure on-balance	**-**	**4,074,691**	**388,524**	**257,583**	**5,417,316**	**12,441,813**	**22,579,927**
Off-balance	-	154,096	34,223	236,387	3,474,900	546,405	4,446,011
Total credit risk exposure	**-**	**4,228,787**	**422,747**	**493,970**	**8,892,216**	**12,988,218**	**27,025,938**

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	-	81,028	45,667	172,952	2,745,148	530,631	3,575,426
Total credit risk exposure	**-**	**3,973,000**	**310,823**	**332,307**	**7,368,577**	**11,902,870**	**23,887,577**

Credit risk exposure by financial instrument and risk category

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2022					
Cash and cash balances - other demand deposits	15,512	-	-	-	15,512
Financial assets at amortised cost	17,162,082	3,339,413	1,226,265	280,391	22,008,151
Loans and advances to banks	24	2	-	-	26
Loans and advances to customers	13,005,780	3,338,897	1,226,255	280,391	17,851,323
of which: Lending for house purchase	8,229,618	1,436,628	536,690	139,169	10,342,105
of which: Credit for consumption	767,029	452,945	190,861	57,168	1,468,003
of which: Corporate loans and others	4,009,133	1,449,324	498,704	84,054	6,041,215
Debt securities	4,156,278	514	10	-	4,156,802
Finance lease receivables	124,696	144,577	14,620	4,248	288,141
Trade and other receivables	72,907	42,905	40,454	5,690	161,956
Non-trading financial assets at fair value through profit or loss - 'Debt securities	11,189	960	-	-	12,149
Derivatives - held for trading	55,431	21,694	13	1	77,139
Positive fair value of derivatives - hedge accounting	16,879	-	-	-	16,879
Total credit risk exposure on-balance	**17,458,696**	**3,549,549**	**1,281,352**	**290,330**	**22,579,927**
Off-balance	3,069,998	1,072,460	294,955	8,598	4,446,011
Total credit risk exposure	**20,528,694**	**4,622,009**	**1,576,307**	**298,928**	**27,025,938**

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	3,026,136	305,761	239,045	4,483	3,575,425
Total credit risk exposure	**20,705,762**	**1,693,992**	**1,188,218**	**299,604**	**23,887,576**

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
31.12.2022						
Cash and cash balances - other demand deposits	15,512	-	-	-	-	15,512
Financial assets at amortised cost	19,359,442	2,278,559	270,743	99,407	-	22,008,151
Loans and advances to banks	24	2	-	-	-	26
Loans and advances to customers	15,251,371	2,229,802	270,743	99,407	-	17,851,323
of which: Lending for house purchase	9,917,061	284,914	137,315	2,815	-	10,342,105
of which: Credit for consumption	1,259,115	151,630	57,039	219	-	1,468,003
of which: Corporate loans and others	4,075,195	1,793,258	76,389	96,373	-	6,041,215
Debt securities	4,108,047	48,755	-	-	-	4,156,802
Finance lease receivables	250,629	33,045	4,220	247	-	288,141
Trade and other receivables	152,408	3,858	4,938	752	-	161,956
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	12,149	12,149
Derivatives - held for trading	-	-	-	-	77,139	77,139
Positive fair value of derivatives - hedge accounting	-	-	-	-	16,879	16,879
Total credit risk exposure on-balance	**19,777,991**	**2,315,462**	**279,901**	**100,406**	**106,167**	**22,579,927**
Off-balance	2,975,192	746,605	5,775	25,736	692,703	4,446,011
Total credit risk exposure	**22,753,183**	**3,062,067**	**285,676**	**126,142**	**798,870**	**27,025,938**

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
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	**17,912,415**	**1,959,981**	**289,794**	**71,724**	**78,237**	**20,312,151**
Off-balance	2,647,416	318,512	4,046	47,929	557,522	3,575,425
Total credit risk exposure	**20,559,831**	**2,278,493**	**293,840**	**119,653**	**635,759**	**23,887,576**

'Not subject to IFRS 9 impairment' means that those statement of financial position items are out of IFRS9 rules.

Credit risk exposure by industry and financial instrument

31.12.2022 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							
I. Natural Resources & Commodities	-	-	-	-	578,917	-	32,594	46,607	-	69	429,643	1,087,830
II. Energy	-	-	-	-	693,161	29,259	9,402	3,020	-	21,648	590,723	1,347,213
III. Construction and building materials	-	-	-	-	343,639	-	18,196	21,549	-	2	931,671	1,315,057
IV. Automotive	-	-	-	-	221,806	-	9,381	9,356	-	-	324,168	564,711
V. Cyclical Consumer Products	-	-	-	-	294,709	-	6,440	12,166	4,637	29	174,231	492,212
VI. Non-Cyclical Consumer Products	-	-	-	-	395,629	9,356	9,627	16,979	-	7	157,615	589,213
VII. Machinery	-	-	-	-	218,261	-	11,175	21,346	-	11	220,389	471,182
VIII. Transportation	-	-	-	-	469,700	76,544	175,660	9,770	-	-	280,590	1,012,264
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	-	-	-	-	162,561	-	2,768	2,780	-	-	80,151	248,260
X. Healthcare & Services	-	-	-	-	263,295	-	9,256	10,892	-	12	113,800	397,255
XI. Hotels, Gaming & Leisure Industry	-	-	-	-	187,991	-	1,242	209	-	1	28,614	218,057
XII. Real Estate	-	-	-	-	1,210,743	10,131	1,248	478	-	276	248,880	1,471,756
XIII. Public Sector	-	-	-	-	329,844	3,734,543	990	-	-	-	101,766	4,167,143
XIV. Financial Institutions	15,512	26	-	-	136,114	296,969	39	6,804	7,512	71,958	259,375	794,309
XV. Private Households	-	-	10,342,105	1,468,003	534,814	-	123	-	-	5	504,380	12,849,430
XVI. Other	-	-	-	-	31	-	-	-	-	-	14	45
Total	**15,512**	**26**	**10,342,105**	**1,468,003**	**6,041,215**	**4,156,802**	**288,141**	**161,956**	**12,149**	**94,018**	**4,446,010**	**27,025,937**

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							
I. Natural Resources & Commodities	-	-	-	-	540,569	-	34,196	49,281	-	486	321,929	946,461
II. Energy	-	-	-	-	525,265	29,249	6,487	3,995	-	35,559	398,546	999,101
III. Construction and building materials	-	-	-	-	325,058	-	14,122	10,092	-	111	584,973	934,356
IV. Automotive	-	-	-	-	194,999	-	8,597	6,939	-	126	299,422	510,083
V. Cyclical Consumer Products	-	-	-	-	215,021	-	7,169	13,177	5,996	36	148,552	389,951
VI. Non-Cyclical Consumer Products	-	-	-	-	370,365	9,356	9,235	14,444	-	117	153,484	557,001
VII. Machinery	-	-	-	-	202,234	-	9,045	19,346	-	192	147,721	378,538
VIII. Transportation	-	-	-	-	422,856	79,313	133,848	4,978	-	969	246,393	888,357
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	-	-	-	-	138,171	-	5,436	2,444	-	407	71,395	217,853
X. Healthcare & Services	-	-	-	-	179,847	10	6,848	5,947	-	3	102,769	295,424
XI. Hotels, Gaming & Leisure Industry	-	-	-	-	164,041	-	1,369	238	-	439	20,988	187,075
XII. Real Estate	-	-	-	-	958,253	10,131	904	321	-	1,777	317,176	1,288,562
XIII. Public Sector	-	-	-	-	290,938	3,604,711	1,324	-	-	-	82,017	3,978,990
XIV. Financial Institutions	9,658	50,025	-	-	73,678	180,124	37	4,314	7,913	24,076	186,567	536,392
XV. Private Households	-	-	9,361,376	1,422,176	501,785	-	153	-	-	32	493,360	11,778,882
XVI. Other	-	-	-	-	413	-	-	-	-	-	131	544
Total	**9,658**	**50,025**	**9,361,376**	**1,422,176**	**5,103,493**	**3,912,894**	**238,770**	**135,516**	**13,909**	**64,330**	**3,575,423**	**23,887,570**

Credit risk exposure by industry and risk category

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2022					
I. Natural Resources & Commodities	588,966	330,250	150,225	18,390	1,087,831
II. Energy	1,077,535	239,978	23,358	6,342	1,347,213
III. Construction and building materials	551,152	616,996	127,998	18,911	1,315,057
IV. Automotive	420,482	130,563	12,198	1,468	564,711
V. Cyclical Consumer Products	251,840	171,331	59,457	9,584	492,212
VI. Non-Cyclical Consumer Products	372,216	147,726	62,047	7,224	589,213
VII. Machinery	275,471	85,007	100,989	9,715	471,182
VIII. Transportation	646,413	314,886	47,400	3,565	1,012,264
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	127,316	92,978	25,625	2,341	248,260
X. Healthcare & Services	195,976	127,166	70,271	3,842	397,255
XI. Hotels, Gaming & Leisure Industry	107,012	69,543	30,459	11,043	218,057
XII. Real Estate	1,175,199	215,305	77,074	4,178	1,471,756
XIII. Public Sector	4,093,542	64,638	8,963	-	4,167,143
XIV. Financial Institutions	769,265	21,606	3,281	157	794,309
XV. Private Households	9,876,285	1,994,024	776,954	202,167	12,849,430
XVI. Other	24	12	8	1	45
Total	**20,528,694**	**4,622,009**	**1,576,307**	**298,928**	**27,025,938**

EUR ths.	Low Risk	Management attention	Substandard	Non-performing loans	Total
31.12.2021					
I. Natural Resources & Commodities	743,151	109,207	70,693	23,409	946,460
II. Energy	763,442	208,477	25,904	1,276	999,099
III. Construction and building materials	659,637	182,355	81,670	10,694	934,356
IV. Automotive	477,575	5,937	12,909	13,662	510,083
V. Cyclical Consumer Products	309,661	34,988	30,201	15,100	389,950
VI. Non-Cyclical Consumer Products	484,522	40,936	27,322	4,221	557,001
VII. Machinery	293,746	37,991	43,834	2,967	378,538
VIII. Transportation	827,905	45,310	11,195	3,949	888,359
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	158,648	52,457	5,988	760	217,853
X. Healthcare & Services	222,540	33,339	31,003	8,542	295,424
XI. Hotels, Gaming & Leisure Industry	110,909	13,291	56,060	6,815	187,075
XII. Real Estate	891,199	55,729	339,937	1,697	1,288,562
XIII. Public Sector	3,927,116	49,184	2,690	-	3,978,990
XIV. Financial Institutions	520,995	1,750	13,568	80	536,393
XV. Private Households	10,314,362	822,846	435,243	206,431	11,778,882
XVI. Other	352	192	-	-	544
Total	**20,705,760**	**1,693,989**	**1,188,217**	**299,603**	**23,887,569**

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
31.12.2022						
I. Natural Resources & Commodities	473,256	552,907	16,647	2,378	42,643	1,087,831
II. Energy	210,531	936,170	6,342	-	194,170	1,347,213
III. Construction and building materials	952,664	128,460	17,398	8,512	208,023	1,315,057
IV. Automotive	461,632	50,532	1,421	59	51,067	564,711
V. Cyclical Consumer Products	385,605	80,865	6,659	3,627	15,456	492,212
VI. Non-Cyclical Consumer Products	502,882	55,948	6,710	817	22,856	589,213
VII. Machinery	370,941	41,556	7,792	6,503	44,390	471,182
VIII. Transportation	880,594	51,449	3,468	99	76,654	1,012,264
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	185,516	52,397	1,858	48	8,441	248,260
X. Healthcare & Services	278,818	110,361	3,311	593	4,172	397,255
XI. Hotels, Gaming & Leisure Industry	96,205	97,844	10,087	12,645	1,276	218,057
XII. Real Estate	927,901	451,715	4,162	86,902	1,076	1,471,756
XIII. Public Sector	4,161,152	600	-	-	5,391	4,167,143
XIV. Financial Institutions	670,652	224	157	26	123,250	794,309
XV. Private Households	12,194,797	451,031	199,664	3,933	5	12,849,430
XVI. Other	37	8	-	-	-	45
Total	**22,753,183**	**3,062,067**	**285,676**	**126,142**	**798,870**	**27,025,938**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
I. Natural Resources & Commodities	715,757	192,802	22,541	1,849	13,511	946,460
II. Energy	730,060	148,835	1,276	-	118,929	999,100
III. Construction and building materials	630,845	80,778	10,318	5,908	206,508	934,357
IV. Automotive	404,450	48,428	13,623	50	43,533	510,084
V. Cyclical Consumer Products	204,254	153,888	13,913	1,903	15,993	389,951
VI. Non-Cyclical Consumer Products	468,566	53,438	4,052	722	30,223	557,001
VII. Machinery	271,472	82,602	2,498	3,769	18,198	378,539
VIII. Transportation	740,779	73,067	3,812	159	70,541	888,358
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	152,771	57,277	713	47	7,045	217,853
X. Healthcare & Services	152,817	125,671	8,363	727	7,847	295,425
XI. Hotels, Gaming & Leisure Industry	38,105	126,628	6,414	14,484	1,444	187,075
XII. Real Estate	604,277	591,323	1,688	86,836	4,439	1,288,563
XIII. Public Sector	3,966,662	6,380	-	-	5,947	3,978,989
XIV. Financial Institutions	396,947	47,775	79	20	91,572	536,393
XV. Private Households	11,081,594	489,528	204,551	3,176	32	11,778,881
XVI. Other	472	72	-	-	-	544
Total	**20,559,828**	**2,278,492**	**293,841**	**119,650**	**635,762**	**23,887,573**

Credit risk exposure by region and financial instrument

31.12.2022 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	-	1	10,286,770	1,458,034	5,955,732	3,769,971	288,141	103,591	5,597	21,996	4,122,439	26,012,272
Central and Eastern Europe	14,754	22	20,488	5,732	55,027	59,239	-	25,682	-	70,430	252,097	503,471
Austria	14,302	13	3,006	350	17	-	-	5,429	-	70,366	23,673	117,156
Czech Republic	445	9	5,425	359	54,852	59,239	-	15,914	-	64	214,428	350,735
Hungary	6	-	62	134	24	-	-	3,189	-	-	11,703	15,118
Croatia	-	-	-	63	1	-	-	426	-	-	1,031	1,521
Romania	1	-	708	215	16	-	-	694	-	-	1,026	2,660
Serbia	-	-	11,287	4,611	117	-	-	30	-	-	236	16,281
Other EU	549	1	1,970	227	26,211	322,513	-	26,557	3,058	1,592	61,924	444,602
Other industrialised countries	209	-	2,541	140	4,127	5,079	-	4,258	3,494	-	5,717	25,565
Emerging markets	-	2	30,336	3,870	118	-	-	1,868	-	-	3,834	40,028
Total	**15,512**	**26**	**10,342,105**	**1,468,003**	**6,041,215**	**4,156,802**	**288,141**	**161,956**	**12,149**	**94,018**	**4,446,011**	**27,025,938**

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	3,354,608	23,126,330
Central and Eastern Europe	5,486	14	17,157	2,856	20,546	42,862	-	18,259	-	19,054	156,096	282,330
Austria	5,261	11	2,286	332	12	-	-	2,319	-	18,548	19,138	47,907
Czech Republic	-	3	4,626	289	20,432	42,862	-	12,103	-	479	125,254	206,048
Hungary	208	-	145	137	20	-	-	3,082	-	27	8,631	12,250
Croatia	14	-	-	53	1	-	-	406	-	-	1,454	1,928
Romania	3	-	495	120	17	-	-	342	-	-	1,292	2,269
Serbia	-	-	9,605	1,925	64	-	-	7	-	-	327	11,928
Other EU	3,961	1	2,127	186	28,616	306,707	-	23,385	-	4,928	56,879	426,790
Other industrialised countries	211	-	2,727	182	1,517	5,078	-	2,133	6,490	-	4,699	23,037
Emerging markets	-	2	22,364	2,055	80	-	-	1,445	-	-	3,144	29,090
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**	**3,575,426**	**23,887,577**

Credit risk exposure by region and risk category

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2022					
Slovakia	19,759,394	4,462,001	1,498,449	292,428	26,012,272
Central and Eastern Europe	372,212	97,072	28,417	5,770	503,471
Austria	113,532	1,799	1,824	1	117,156
Czech Republic	243,924	82,289	19,065	5,457	350,735
Hungary	5,580	5,392	4,100	46	15,118
Croatia	21	901	577	22	1,521
Romania	1,386	1,190	33	51	2,660
Serbia	7,769	5,501	2,818	193	16,281
Other EU	358,343	50,632	35,279	348	444,602
Other industrialised countries	15,997	2,710	6,700	158	25,565
Emerging markets	22,748	9,594	7,462	224	40,028
Total	**20,528,694**	**4,622,009**	**1,576,307**	**298,928**	**27,025,938**

EUR ths.	Credit risk exposure				Gross carrying amount
	Low Risk	Management attention	Substandard	Non-performing	
31.12.2021					
Slovakia	20,068,842	1,640,996	1,122,599	293,891	23,126,328
Central and Eastern Europe	234,944	18,444	23,319	5,619	282,326
Austria	44,736	4	3,161	3	47,904
Czech Republic	171,751	16,489	12,614	5,195	206,049
Hungary	7,273	13	4,935	29	12,250
Croatia	1,406	20	500	1	1,927
Romania	1,651	-	556	62	2,269
Serbia	8,127	1,918	1,553	329	11,927
Other EU	360,555	29,052	37,148	33	426,788
Other industrialised countries	20,524	9	2,498	7	23,038
Emerging markets	20,894	5,489	2,653	55	29,091
Total	**20,705,759**	**1,693,990**	**1,188,217**	**299,605**	**23,887,571**

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
31.12.2022						
Slovakia	21,959,734	2,992,038	279,993	125,242	655,265	26,012,272
Central and Eastern Europe	329,853	40,521	4,955	819	127,323	503,471
Austria	27,713	140	1	2	89,300	117,156
Czech Republic	268,212	39,289	4,650	807	37,777	350,735
Hungary	14,791	35	42	4	246	15,118
Croatia	1,499	-	22	-	-	1,521
Romania	2,594	14	50	2	-	2,660
Serbia	15,044	1,043	190	4	-	16,281
Other EU	409,883	22,023	347	80	12,269	444,602
Other industrialised countries	16,814	5,080	158	-	3,513	25,565
Emerging markets	36,899	2,405	223	1	500	40,028
Total	**22,753,183**	**3,062,067**	**285,676**	**126,142**	**798,870**	**27,025,938**

EUR ths.	Stage 1	Stage 2	Stage 3	POCI	Not subject to IFRS 9 impairment	Total credit risk exposure
31.12.2021						
Slovakia	19,922,288	2,235,413	288,143	119,634	560,850	23,126,328
Central and Eastern Europe	212,474	12,526	5,602	17	51,705	282,324
Austria	15,115	352	3	2	32,432	47,904
Czech Republic	170,533	11,374	5,187	8	18,946	206,048
Hungary	11,866	27	25	3	327	12,248
Croatia	1,926	-	1	-	-	1,927
Romania	2,147	61	60	1	-	2,269
Serbia	10,887	712	326	3	-	11,928
Other EU	381,239	29,318	33	-	16,200	426,790
Other industrialised countries	16,261	264	7	-	6,505	23,037
Emerging markets	27,564	971	54	1	500	29,090
Total	**20,559,826**	**2,278,492**	**293,839**	**119,652**	**635,760**	**23,887,569**

Credit risk exposure according to impairment view

31.12.2022	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	-	-	-	-	-	-	15,512	-	15,512
Financial assets at amortised cost	341,895	317,202	13,312	7,195	2,543	1,642	21,385,865	280,391	22,008,151
Loans and advances to banks	25	25	-	-	-	-	1	-	26
Loans and advances to customers	341,870	317,177	13,312	7,195	2,543	1,642	17,229,062	280,391	17,851,323
of which: Lending for house purchase	109,910	93,774	8,648	4,274	1,933	1,280	10,093,026	139,169	10,342,105
of which: Credit for consumption	48,517	43,075	3,011	1,746	479	206	1,362,318	57,168	1,468,003
of which: Corporate loans and others	183,443	180,328	1,653	1,175	131	156	5,773,718	84,054	6,041,215
Debt securities	-	-	-	-	-	-	4,156,802	-	4,156,802
Finance lease receivables	4,432	3,605	594	228	5	-	279,461	4,248	288,141
Trade and other receivables	14,108	13,405	598	105	-	-	142,157	5,690	161,956
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	12,149	-	12,149
Financial assets - held for trading	-	-	-	-	-	-	77,139	-	77,139
Positive fair value of derivatives	-	-	-	-	-	-	16,879	-	16,879
Total credit risk exposure on-balance	**360,435**	**334,212**	**14,504**	**7,528**	**2,548**	**1,642**	**21,929,162**	**290,329**	**22,579,927**
Off-balance	-	-	-	-	-	-	4,439,510	6,501	4,446,011
Total credit risk exposure	**360,435**	**334,212**	**14,504**	**7,528**	**2,548**	**1,642**	**26,368,672**	**296,830**	**27,025,938**

31.12.2021 EUR ths.	Non-impaired loans							Impaired loans	Total Credit risk exposure
	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		
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	-	-	-	-	-	-	3,570,942	4,483	3,575,425
Total credit risk exposure	**373,041**	**345,311**	**15,570**	**7,291**	**3,179**	**1,688**	**23,214,929**	**299,604**	**23,887,576**

Credit quality for exposures, which are neither past due non impaired

EUR ths.	Low Risk	Management attention	Substandard	Non-performing	Total
31.12.2022					
Cash and cash balances - other demand deposits	15,512	-	-	-	15,512
Financial assets at amortised cost	17,102,348	3,282,978	1,000,539	-	21,385,865
Loans and advances to banks	1	-	-	-	1
Loans and advances to customers	12,946,069	3,282,464	1,000,529	-	17,229,062
of which: Lending for house purchase	8,226,385	1,422,905	443,736	-	10,093,026
of which: Credit for consumption	766,496	447,843	147,979	-	1,362,318
of which: Corporate loans and others	3,953,188	1,411,716	408,814	-	5,773,718
Debt securities	4,156,278	514	10	-	4,156,802
Finance lease receivables	124,017	141,976	13,468	-	279,461
Trade and other receivables	67,256	38,044	36,857	-	142,157
Non-trading financial assets at fair value through profit or loss - 'Debt securities	11,189	960	-	-	12,149
Derivatives - held for trading	55,431	21,694	13	1	77,139
Positive fair value of derivatives - hedge accounting	16,879	-	-	-	16,879
Total credit risk exposure on-balance	**17,392,632**	**3,485,652**	**1,050,877**	**1**	**21,929,162**
Off-balance	3,069,998	1,072,460	294,955	2,097	4,439,510
Total credit risk exposure	**20,462,630**	**4,558,112**	**1,345,832**	**2,098**	**26,368,672**

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	3,026,136	305,761	239,045	-	3,570,942
Total credit risk exposure	**20,566,041**	**1,637,891**	**1,010,999**	**-**	**23,214,931**

Credit risk exposure by Basel 3 exposure class and financial instrument

EUR ths.	Sovereigns	Institutions	Corporates	Retail	Total
31.12.2022					
Cash and cash balances - other demand deposits	-	15,512	-	-	15,512
Financial assets at amortised cost	4,071,807	296,472	4,893,907	12,745,965	22,008,151
Loans and advances to banks	-	26	-	-	26
Loans and advances to customers	337,264	-	4,768,094	12,745,965	17,851,323
of which: Lending for house purchase	-	-	-	10,342,105	10,342,105
of which: Credit for consumption	-	-	-	1,468,003	1,468,003
of which: Corporate loans and others	337,264	-	4,768,094	935,857	6,041,215
Debt securities	3,734,543	296,446	125,813	-	4,156,802
Finance lease receivables	1,062	-	275,972	11,107	288,141
Trade and other receivables	1,822	-	159,883	251	161,956
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	12,149	-	12,149
Derivatives - held for trading	-	55,079	22,055	5	77,139
Positive fair value of derivatives - hedge accounting	-	16,879	-	-	16,879
Total credit risk exposure on-balance	**4,074,691**	**383,942**	**5,363,966**	**12,757,328**	**22,579,927**
Off-balance	154,095	34,228	3,632,606	625,082	4,446,011
Total credit risk exposure	**4,228,786**	**418,170**	**8,996,572**	**13,382,410**	**27,025,938**

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	80,928	93,172	2,798,284	603,042	3,575,426
Total credit risk exposure	**3,972,901**	**356,471**	**7,312,633**	**12,245,572**	**23,887,577**

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 separate entity, as necessary, and are subject to initial and on-going validation.

Relative thresholds for SICR assessment

	Threshold interval (x times)	
	Min	Max
31.12.2022	1.13	4.08
31.12.2021	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 has introduced additional portfolio level SICR assessment criteria due to the war in Ukraine (implemented in 2022) and related economic impacts. Similarly, from 2020 till Q3-2022 portfolio assessment due to the Covid-19 pandemic was established. For more details refer to “Collective assessment” in the next chapter.

Considering the war in Ukraine, Bank started with a portfolio screening to identify customers affected by the secondary effects of the geopolitical risk. The Bank has only very limited exposure towards the affected region with only several clients with exposure.

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. The main indicator of the estimated economic development is the GDP. In addition, economic effects of the war in Ukraine led to increases of the inflation and/or the interest rates. Erste Group adjusted macro-shift models to reflect expected effects of those into credit risk parameters. In the table below we are disclosing expected development of inflation or interest rates in our region. Disclosures are based on the relevancy in the macro-shift model.

Bank reviewed the FLI in the fourth quarter of 2022 according to the disclosed forecasts for baseline, downside and upside scenarios. Erste Group decided to keep 40% probability of occurrence assigned to baseline forecast due to the unstable development of the geopolitical situation – war in Ukraine.

In December 2021, the specific situation of the Covid-19 pandemic was addressed in FLI via the lagging of the macroeconomic variables in credit risk parameters, i.e. variables of 2020 and 2021 were included as additional predictors for future values of credit risk parameters. Considering the improvement of the situation (it is expected that new variants, including omicron, are more contagious, but with lower hospitalisation rate), Erste Group decided to update FLI based on the forecasts for years 2023-2025, i.e., no lagging is applied; however macro-variables' historical development was adjusted for the Covid period (2020-2021) in order to reflect compensatory effect of the state support measures.

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

31.12.2022

Parameter	Scenario	Weight	2022	2023	2024	2025
GDP - real growth (in %)	Macro down	59%	1.8	-4.6	-2.2	1.1
	Macro base	40%	1.8	1.5	2.6	2.0
	Macro up	1%	1.8	3.6	4.7	4.1
GDP - Nominal growth (in %)	Macro down	59%	7.0	5.1	4.4	3.9
	Macro base	40%	10.0	8.0	7.3	6.8
	Macro up	1%	12.9	11.0	10.3	9.8
Unemployment rate (in %)	Macro down	59%	6.3	8.4	8.8	8.5
	Macro base	40%	6.3	6.5	6.5	6.3
	Macro up	1%	6.3	5.1	5.1	4.9
Inflation - CPI (in %)	Macro down	59%	12.7	11.4	6.8	4.8
	Macro base	40%	12.7	9.3	4.5	3.5
	Macro up	1%	12.7	8.0	3.2	2.2
Unemployment rate - shift 12 months (in %)	Macro down	59%	7.0	6.3	8.4	8.8
	Macro base	40%	7.0	6.3	6.5	6.5
	Macro up	1%	7.0	6.3	5.1	5.1
Real Wage growth (in %)	Macro down	59%	-3.7	-3.6	0.6	-0.3
	Macro base	40%	-3.7	-2.3	1.9	1.0
	Macro up	1%	-3.7	-0.9	3.3	2.4

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

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.
In the Risk Materiality Assessment, climate and environment-related risks are overall assessed as medium and therefore classified as material, but they are expected to generate more impact on credit risk in the medium to long run. Therefore, in the short-term Bank did not include additional overlays for ESG risks into ECL calculation for year 2022.

Collective assessment

As of December 2022, in addition to standard SICR assessment, Bank applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by the war in Ukraine and the energy crisis. Till fourth quarter of 2022, Bank had in place overlays addressing Covid-19 as well. Improved pandemic situation over 2022 enabled discontinuation of Covid-19 related overlays.

Covid-19 effect

The Covid-19 pandemic caused 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 in all of Bank's core markets to support citizens and companies.

Effect on customers

Immediately upon the crisis showed severe economic impacts in our region (governmental decisions on lockdowns), initiatives were started aiming to, on the one hand support Banks´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.

Effect on business

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". The categorization was 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 was 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 could 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 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 had a significant impact on their businesses, e.g. Hotels, Manufacturing. In Q4 2022 the reassessment led to complete discontinuation of Industry heat map and all staging rules introduced due to Covid-19 pandemic.

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 was 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 used three scenarios as a basis for the credit risk parameters' shift incorporation. The Baseline scenario was constructed by the Erste Group macro research team which leverages on the network of local macroeconomic experts in our core markets. The baseline scenario was generally aligned with other available external forecasts (e.g.: ECB, IMF, EU Commission).

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 led to COVID-19 SICR overlay assessment.

The Bank established a COVID-19 flag in the systems. The COVID-19 flag indicated any supporting measure granted to the customer irrespective whether legal or private moratorium, EBA guideline compliant or not. All these flags were considered as relevant and were 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 needed 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 had only industry heat map negative information or COVID-19 flag as the negative information). In case there existed already a combination of two negative information, the Bank did 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 was 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 were 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)

In 2020 the bank created about EUR 47 million provisions applying the Covid-19 SICR overlay rules.

After moratoria ended for clients, the Bank still kept SICR overlays active for six months in order to compensate for lacking information. In case of private individuals we addressed via these overlays mainly lacking information for the score-card variables on the delinquency.

In case of private individuals the Bank already saw release of ECL where the 6 month period after moratoria expiration already passed. Most of the moratoria expired in January and February 2021 and the Bank released approximately EUR 8 million of provisions in Retail and EUR 16 million in Corporate portfolio.

Developments in 2022

The Industry heatmap categorizations were regularly reviewed on a 12-month rolling forecast basis to take current developments into account. The last review was done in October 2022 and led to discontinuation of this industries' classification due to the overall stabilization of the Covid-19 situation and its effects. This caused a release of ECL in amount of EUR 4.9 million in 2022.

War in Ukraine

The Ukraine-Russia war, intensified challenges for both risk and business divisions: a rally in energy prices on the one hand and disruptions in supply chains on the other hand. The first ones had implications on various industries, mainly those with energy intensive production processes, but also impacting segments with high fuel cost shares. Issues with supply chains are managed by affected clients with diverse measures aiming to safeguard the business activity and liquidity (amongst others: active working capital management, targeted stocking-up, output adaptation, renegotiations with off takers etc.), in some cases also by ensuring backup/liquidity financing. Developments as mentioned above are reflected in the regular updates of the industry strategies.

In June 2022, Bank implemented rules for stage overlays due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. These rules were defined on top of existing criteria mentioned in the section 'Significant increase in credit risk determination – Qualitative criteria' (Stage 2 identification based on the early warning signal and negative information about geopolitical risk in March 2022). The table below shows volumes for the cyclical industries category.

In addition to cyclical industries, from September 2022 Bank has introduced additional Energy stage overlay due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were identified. Effects of gas rationing/shortage on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected. All companies belonging to the Energy sector as the whole industry can potentially be affected by the massive shortages and distortions in the current energy market: price volatility, margin calls, price caps, adverse weather environment for hydro power, fixed off-take contracts (putting off-takers at risk when stopped and / or limiting producers of renewable energy profiting from the higher prices), exceptional taxes, etc. All customers belonging to these industries / sub-industries were migrated to Stage 2.

After discontinuation of Covid-19 overlays we are currently applying two sets of overlays mentioned above:

3. Cyclical overlays – exposures with Cyclical industry + one-year IFRS PD > 250bps
4. Energy overlays – exposures with Energy industry (II. Energy industry + sub-industries Chemicals and Metals from I. Natural resources & commodities industry).

The overlays are exclusive meaning only one of them can be applied at the time and the priority is cyclical overlays are evaluated first and energy overlays second.

The table below shows volumes for the cyclical industries category and energy dependent (sub)industries.

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – cyclical industries

31.12.2022 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
I. Natural Resources & Commodities	473,256	552,908	16,648	2,378	1,045,190	42,643	1,087,833	20,654
of which cyclical	134,497	410,905	1,040	1,240	547,681	36,021	583,702	5,928
II. Energy	210,531	936,170	6,342	-	1,153,043	194,170	1,347,213	23,048
III. Construction and building materials	952,664	128,460	17,398	8,513	1,107,034	208,024	1,315,058	20,690
of which cyclical	834,059	95,429	8,824	8,403	946,716	194,063	1,140,779	12,005
IV. Automotive	461,632	50,532	1,421	59	513,644	51,068	564,712	3,147
of which cyclical	441,694	48,946	611	48	491,300	50,418	541,718	2,219
V. Cyclical Consumer Products	385,604	80,865	6,659	3,627	476,756	15,456	492,212	12,918
VI. Non-Cyclical Consumer Products	502,882	55,948	6,710	817	566,356	22,857	589,213	8,056
VII. Machinery	370,941	41,556	7,792	6,503	426,792	44,390	471,182	10,887
of which cyclical	286,461	34,890	1,659	5,445	328,455	19,557	348,012	5,174
VIII. Transportation	880,594	51,449	3,468	99	935,610	76,655	1,012,265	6,117
of which cyclical	120,621	17,351	52	-	138,023	1,112	139,135	463
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	185,516	52,397	1,858	48	239,818	8,441	248,259	5,724
of which cyclical	36,835	5,823	92	47	42,797	201	42,998	348
X. Healthcare & Services	278,818	110,361	3,311	593	393,082	4,172	397,254	11,089
of which cyclical	72,308	93,772	2,228	424	168,731	1,557	170,288	8,338
XI. Hotels, Gaming & Leisure Industry	96,205	97,844	10,087	12,645	216,782	1,275	218,057	15,484
of which cyclical	96,205	97,844	10,087	12,645	216,782	1,275	218,057	15,484
XII. Real Estate	927,901	451,715	4,162	86,902	1,470,680	1,074	1,471,754	58,362
of which cyclical	835,401	436,309	3,396	86,902	1,362,007	276	1,362,283	54,872
XIII. Public Sector	4,161,152	600	-	-	4,161,752	5,391	4,167,143	1,159
XIV. Financial Institutions	670,653	224	157	26	671,059	123,250	794,309	725
XV. Private Households	12,194,797	451,031	199,664	3,934	12,849,425	5	12,849,430	179,299
XVI. Other	36	8	-	-	44	-	44	2
Total	**22,753,182**	**3,062,068**	**285,677**	**126,144**	**26,227,067**	**798,871**	**27,025,938**	**377,361**
of which cyclical (including Cyclical Consumer Products)	**3,243,686**	**1,322,134**	**34,648**	**118,782**	**4,719,249**	**319,935**	**5,039,185**	**117,750**

31.12.2021 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
I. Natural Resources & Commodities	715,757	192,802	22,541	1,849	932,949	13,511	946,462	26,624
of which cyclical	408,596	80,502	1,569	409	491,076	11,002	502,078	5,321
II. Energy	730,060	148,835	1,276	-	880,172	118,929	999,101	20,978
III. Construction and building materials	630,845	80,778	10,318	5,908	727,849	206,508	934,358	15,242
of which cyclical	510,493	56,854	8,390	5,778	581,514	189,715	771,229	11,414
IV. Automotive	404,450	48,428	13,623	50	466,551	43,533	510,083	6,447
of which cyclical	395,089	45,011	12,662	39	452,801	42,883	495,683	5,311
V. Cyclical Consumer Products	204,254	153,888	13,913	1,903	373,958	15,993	389,951	17,447
VI. Non-Cyclical Consumer Products	468,566	53,438	4,052	722	526,778	30,223	557,001	7,505
VII. Machinery	271,472	82,602	2,498	3,769	360,340	18,198	378,537	6,877
of which cyclical	222,317	66,541	2,474	3,769	295,102	13,045	308,147	6,225
VIII. Transportation	740,779	73,067	3,812	159	817,818	70,541	888,359	6,836
of which cyclical	120,562	32,135	53	-	152,751	100	152,851	789
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	152,771	57,277	713	47	210,809	7,045	217,854	3,446
of which cyclical	18,011	40,843	368	47	59,270	101	59,371	1,844
X. Healthcare & Services	152,817	125,671	8,363	727	287,577	7,847	295,424	10,210
of which cyclical	27,584	59,633	6,229	503	93,949	587	94,536	5,120
XI. Hotels, Gaming & Leisure Industry	38,105	126,628	6,414	14,484	185,632	1,444	187,076	9,817
of which cyclical	38,105	126,628	6,414	14,484	185,632	1,444	187,076	9,817
XII. Real Estate	604,277	591,323	1,688	86,836	1,284,123	4,439	1,288,562	54,182
of which cyclical	551,277	572,219	401	86,827	1,210,724	2,904	1,213,628	50,425
XIII. Public Sector	3,966,662	6,380	-	-	3,973,042	5,947	3,978,989	1,446
XIV. Financial Institutions	396,947	47,775	79	20	444,822	91,572	536,393	520
XV. Private Households	11,081,594	489,528	204,551	3,176	11,778,850	32	11,778,882	181,552
XVI. Other	472	72	-	-	544	-	544	6
Total	20,559,828	2,278,492	293,841	119,650	23,251,814	635,762	23,887,576	369,135
of which cyclical (including Cyclical Consumer Products)	**2,496,289**	**1,234,254**	**52,473**	**113,759**	**3,896,775**	**277,773**	**4,174,548**	**113,712**

Total exposure in Stage 2 of cyclical industries as of December 2022 is EUR 1,322 million. After applying rule for one-year IFRS PD the exposure relevant for cyclical overlays is EUR 578 million. Total exposure in Stage 2 of energy industries as of December 2022 is EUR 1,461 million. As no further rules are applied, this is also the amount in energy overlays. With these overlay rules for cyclical and energy overlays we allocated additional ECL in the amount of EUR 10 million for cyclical overlays and EUR 8 million for energy overlays. Total ECL creation due to overlay rules in 2022 was EUR 18 million from the total impairment costs of EUR 32.1 million.

Sensitivity of ECL overlays

The Bank has calculated potential effects of various scenarios on ECL. We focused on change in PD parameter in both cyclical and energy overlays and change in PD threshold for cyclical overlays. The results are presented in the following table.

Sensitivity of ECL overlays

31.12.2022	Scenario PD + 10%				Scenario PD threshold 0bps			
EUR ths.	Credit risk exposure	CLA	CLA stress	Δ(CLA - CLA stress)	Credit risk exposure	CLA	CLA stress	Δ(CLA - CLA stress)
I. Natural Resources & Commodities	526,169	6,310	6,892	582	531,385	6,345	6,475	130
of which Cyclical	21,704	1,188	1,286	98	414,925	4,372	4,502	130
of which Energy	504,464	5,122	5,605	484	116,460	1,973	1,973	-
II. Energy	934,974	19,670	21,628	1,957	934,974	19,670	19,670	-
of which Energy	934,974	19,670	21,628	1,957	934,974	19,670	19,670	-
III. Construction and building materials	72,528	4,322	4,659	336	578,786	5,514	8,992	3,478
of which Cyclical	72,528	4,322	4,659	336	578,786	5,514	8,992	3,478
IV. Automotive	6,559	497	535	39	464,768	1,724	3,282	1,558
of which Cyclical	6,559	497	535	39	464,768	1,724	3,282	1,558
V. Cyclical Consumer Products	44,759	3,262	3,450	188	426,737	4,697	8,687	3,991
of which Cyclical	44,759	3,262	3,450	188	426,737	4,697	8,687	3,991
VII. Machinery	32,384	2,510	2,734	224	271,873	2,841	4,780	1,939
of which Cyclical	32,384	2,510	2,734	224	271,873	2,841	4,780	1,939
VIII. Transportation	191	22	22	-	129,848	425	1,831	1,405
of which Cyclical	191	22	22	-	129,848	425	1,831	1,405
IX. TMT; Telecommunications, Media, Technology and Paper & Packaging	823	78	81	3	38,596	230	680	450
of which Cyclical	823	78	81	3	38,596	230	680	450
X. Healthcare & Services	90,441	6,764	7,393	629	154,615	7,099	8,047	948
of which Cyclical	90,441	6,764	7,393	629	154,615	7,099	8,047	948
XI. Hotels, Gaming & Leisure Industry	73,121	7,130	7,784	654	193,024	7,885	9,212	1,327
of which Cyclical	73,121	7,130	7,784	654	193,024	7,885	9,212	1,327
XII. Real Estate	236,100	15,794	17,323	1,529	1,270,785	25,783	32,563	6,780
of which Cyclical	236,100	15,794	17,323	1,529	1,270,785	25,783	32,563	6,780
Total	**2,018,049**	**66,358**	**72,499**	**6,141**	**4,995,391**	**82,213**	**104,220**	**22,007**
of which Cyclical (including Cyclical Consumer Products)	**578,610**	**41,567**	**45,266**	**3,700**	**3,943,957**	**60,570**	**82,577**	**22,007**
of which Energy	**1,439,439**	**24,792**	**27,233**	**2,441**	**1,051,434**	**21,643**	**21,643**	-

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.

Credit risk exposure, forbearance exposure and credit loss allowances

EUR ths.	Loans and advances	Debt securities	Other positions	Off-balance	Total credit risk exposure
31.12.2022					
Gross exposure	18,301,446	4,168,951	109,530	4,446,011	27,025,938
thereof gross forborne exposure	388,082	-	-	6,814	394,896
Performing exposure	18,011,117	4,168,951	109,529	4,437,413	26,727,010
thereof performing forborne exposure	283,280	-	-	6,459	289,739
Credit loss allowances for performing exposure	179,353	1,903	-	20,177	201,433
thereof credit loss allowances for performing forborne exposure	13,037	-	-	80	13,117
Non-performing exposure	290,329	-	1	8,598	298,928
thereof non-performing forborne exposure	104,801	-	-	355	105,156
Credit loss allowances for non-performing exposure	172,765	-	-	3,162	175,927
thereof credit loss allowances for non-performing forborne exposure	53,315	-	-	3	53,318

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	3,575,425	23,887,574
thereof gross forborne exposure	455,255	-	121	55,128	510,503
Performing exposure	16,016,238	3,926,803	73,986	3,570,942	23,587,969
thereof performing forborne exposure	357,990	-	120	54,622	412,733
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	-	-	4,483	299,605
thereof non-performing forborne exposure	97,264	-	-	506	97,770
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

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

31.12.2022	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral	IFRS 9 impairment relevant		
EUR ths.			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	15,512	-	-	-	-	-	15,512	15,512	-	-
Financial assets at amortised cost	22,008,151	144,735	236,430	10,901,046	370,547	11,508,022	10,500,129	21,385,865	341,895	280,391
Loans and advances to banks	26	-	12	-	-	12	14	1	25	-
Loans and advances to customers	17,851,323	144,735	226,365	10,901,046	370,547	11,497,957	6,353,366	17,229,062	341,870	280,391
of which: Lending for house purchase	10,342,105	128,134	-	9,533,711	25	9,533,736	808,369	10,093,026	109,910	139,169
of which: Credit for consumption	1,468,003	280	-	291	-	291	1,467,712	1,362,318	48,517	57,168
of which: Corporate loans and others	6,041,215	16,321	226,365	1,367,044	370,522	1,963,930	4,077,285	5,773,718	183,443	84,054
Debt securities	4,156,802	-	10,053	-	-	10,053	4,146,749	4,156,802	-	-
Finance lease receivables	288,141	1,781	-	-	195,354	195,354	92,787	279,461	4,432	4,248
Trade and other receivables	161,956	-	-	-	-	-	161,956	142,157	14,108	5,690
Non-trading financial assets at fair value through profit or loss - 'Debt securities	12,149	-	-	-	-	-	12,149	-	-	-
Financial assets - held for trading	77,139	-	-	-	-	-	77,139	-	-	-
Positive fair value of derivatives	16,879	-	-	-	-	-	16,879	-	-	-
Total credit risk exposure on-balance	**22,579,927**	**146,516**	**236,430**	**10,901,046**	**565,901**	**11,703,376**	**10,876,551**	**21,822,995**	**360,435**	**290,329**
Off-balance	4,446,011	408	-	115,757	112,269	228,026	4,217,985	3,746,807	-	6,501
Total credit risk exposure	**27,025,938**	**146,924**	**236,430**	**11,016,803**	**678,170**	**11,931,402**	**15,094,536**	**25,569,802**	**360,435**	**296,830**

31.12.2021	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral	IFRS 9 impairment relevant		
EUR ths.			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	19,849,966	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	3,575,425	144	-	96,756	122,426	219,182	3,356,243	3,013,473	-	4,430
Total credit risk exposure	**23,887,576**	**151,897**	**242,473**	**8,794,588**	**506,022**	**9,543,083**	**14,344,490**	**22,579,223**	**373,041**	**299,551**

The collateral attributable to exposures that are credit-impaired at 31 December 2022 amounts to EUR 146.5 million (2021: EUR 151.9 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 %	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Cash and cash balances	2,483,999	899,436	10.73%	3.78%
Loans and receivables to customers	562,736	552,140	2.43%	2.32%
Securities portfolio	3,264,708	3,377,414	14.11%	14.20%
Total	**6,311,443**	**4,828,990**	**27.27%**	**20.30%**

The following table presents a breakdown of state debt securities held by the Bank per portfolio and type of security:

EUR ths.	31.12.2021	31.12.2022
Financial assets at amortised cost	3,264,708	3,377,414
State bonds denominated in EUR	3,194,283	3,377,414
State bonds denominated in USD	70,425	-
Total	**3,264,708**	**3,377,414**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with negative outlook (since 05 August 2022).

25. 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 statement of financial position 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 behaviour 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 statement of financial position) is quantified by Economic Value of Equity (change in statement of financial position 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.	31.12.2021	31.12.2022
Banking book - ALM portfolio	11,700	14,993
Banking book - Corporate portfolio	718	1,062
Banking book - ALCO portfolio	181	325
Trading book	7	22

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 behaviour 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.	31.12.2021	31.12.2022
SLSP		
parallel down scenario	(35,990)	9,357
parallel up scenario	42,675	(106,611)
flattener scenario	(154,497)	(126,449)
steepener scenario	109,694	51,012
short down scenario	50,369	73,087
short up scenario	(100,661)	(140,115)

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 statement of financial position.

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 4.6 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 statement of financial position and forecasted earnings. Decisions are based on statement of financial position 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 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.

26. 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 2022, customer deposits remained the primary source of funding for the Bank. The growth in loan volume was substantially higher than inflows of customer deposits. The gap was funded chiefly by own issuances. 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 1 944 million in bonds in 2022 (2021: EUR 312 million) out of which 1 000 million as covered bond, EUR 500 million as retained covered bonds and EUR 444 million as senior bonds.

The Bank's total TLTRO participation at the end of 2022 was EUR 1 billion (2021: EUR 2.75 billion). EUR 1.75 billion participation in TLTRO was early repaid in November 2022.

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
- name crisis – over 1 months
- market crisis – over 6 months
- combined name and market crisis – over 3 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 0.75 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 770 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 2021 and 31 December 2022:

EUR ths.	31.12.2021	31.12.2022
Liquidity buffer	4,327,590	4,322,139
Net liquidity outflow	2,282,137	2,672,881
Liquidity coverage ratio	189.63%	161.70%

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
31.12.2022					
Cash, excess reserve	1,056	-	-	-	-
Liquid assets	3,288	-	(361)	(10)	(60)
Other central bank eligible assets	-	1,553	(3)	(3)	(5)
Thereof retained covered bonds	-	1,428	-	-	-
Thereof credit claims	-	125	(3)	(3)	(5)
Counterbalancing capacity	**4,344**	**1,553**	**(364)**	**(13)**	**(65)**

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)**

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:

EUR ths.	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
31.12.2022						
Non-derivative liabilities	**21,082,230**	**21,290,266**	**15,637,900**	**1,383,527**	**3,404,396**	**864,443**
Deposits by banks	1,173,628	1,226,304	38,783	24,188	1,132,491	30,842
Customer deposits	16,920,169	16,922,106	15,599,056	1,307,255	15,795	-
Debt securities in issue	2,935,613	3,086,267	61	45,401	2,224,676	816,129
Subordinated liabilities	52,820	55,589	-	6,683	31,434	17,472
Derivative liabilities	**176,799**	**50,271**	**774**	**18,726**	**30,752**	**19**
Derivatives liabilities with gross Cash Flow (net)	176,799	50,271	774	18,726	30,752	19
Outflows	-	344,755	106,241	108,588	123,678	6,248
Inflows	-	(294,484)	(105,467)	(89,862)	(92,926)	(6,229)
Contingent liabilities	**2,507,524**	**2,507,524**	**2,507,524**	**-**	**-**	**-**
Financial guarantees	15,070	15,070	15,070	-	-	-
Commitments	2,492,454	2,492,454	2,492,454	-	-	-
Other financial liabilities	113,790	113,790	113,790	-	-	-
Lease liabilities	81,718	81,718	1,658	9,922	34,058	36,080
Total	**23,962,061**	**24,043,569**	**18,261,646**	**1,412,175**	**3,469,206**	**900,542**

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	36,526	36,526	36,526	-	-	-
Lease liabilities	32,333	32,333	1,292	11,888	18,495	658
Total	**23,248,071**	**23,213,126**	**17,812,977**	**811,452**	**4,249,710**	**338,987**

As of year-end 2022, the currency composition of the non-derivative liabilities consisted mainly by EUR (approximately 99%).

27. 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 operational risk 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.

NON-CURRENT ASSETS AND OTHER INVESTMENTS

28. PROPERTY, EQUIPMENT, INVESTMENT PROPERTIES AND RIGHT OF USE ASSETS

Property and equipment

Property and equipment are 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 statement of financial position 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.

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 1 January 2021	**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 December 2021	**147,154**	**46,546**	**58,954**	**64,163**	**316,817**	**6,165**
Additions	6,515	3,520	7,792	62,987	80,814	-
Disposals	(8,615)	(4,640)	(10,309)	(1,886)	(25,450)	(126)
Reclassification	(705)	-	-	-	(705)	705
Balance as at 31 December 2022	**144,349**	**45,426**	**56,437**	**125,264**	**371,476**	**6,744**

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 1 January 2021	**(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 December 2021	**(93,111)**	**(38,623)**	**(42,202)**	**(31,910)**	**(205,846)**	**(4,647)**
Amortisation and depreciation	(6,676)	(2,622)	(6,350)	(13,996)	(29,644)	(213)
Disposals	6,599	4,302	10,305	1,886	23,092	81
Disposal of subsidiaries	623	-	-	-	623	-
Impairment	(204)	-	-	-	(204)	(3)
Reversal of impairment	2,401	-	-	-	2,401	14
Reclassification	521	-	-	-	521	(521)
Balance as at 31 December 2022	**(89,847)**	**(36,943)**	**(38,247)**	**(44,020)**	**(209,057)**	**(5,289)**

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
Balance as at 31 December 2021	**54,043**	**7,923**	**16,752**	**32,253**	**110,971**	**1,518**
Balance as at 31 December 2022	**54,502**	**8,483**	**18,190**	**81,244**	**162,419**	**1,455**

In 2022, land and buildings were impaired to the amount of EUR 7.7 million (2021: EUR 10.6 million).

Cost of property and equipment, which are fully depreciated but still used by the Bank as at 31 December 2022 amounted EUR 65.4 million (2021: EUR 71.5 million) and includes various types of tangible fixed assets.

As at 31 December 2022 the Bank owned property and equipment not yet put in use in the amount of EUR 4.7 million (2021: EUR 0.7 million).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

29. 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 the Bank 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 property and equipment	Useful lives in years
Computer 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 28 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 1 January 2021	**281,361**	**2,661**	**2,723**	**286,745**
Additions	7,508	-	-	7,508
Disposals	(159)	-	-	(159)
Balance as at 31 December 2021	**288,710**	**2,661**	**2,723**	**294,094**
Additions	6,618	-	-	6,618
Balance as at 31 December 2022	**295,328**	**2,661**	**2,723**	**300,712**

Accumulated depreciation

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2021	**(262,503)**	**(2,631)**	**(2,664)**	**(267,798)**
Amortisation and depreciation	(7,453)	(29)	(23)	(7,505)
Disposals	159	-	-	159
Balance as at 31 December 2021	**(269,797)**	**(2,660)**	**(2,687)**	**(275,144)**
Amortisation and depreciation	(7,677)	-	(23)	(7,700)
Balance as at 31 December 2022	**(277,474)**	**(2,660)**	**(2,710)**	**(282,844)**

Carrying amounts

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2021	**18,911**	**-**	**36**	**18,947**
Balance as at 31 December 2022	**17,854**	**-**	**14**	**17,868**

Cost of intangible assets, which are fully depreciated but still used by the Bank as at 31 December 2022 amounted EUR 261.6 million (2021: EUR 253.7 million).

As at 31 December 2022 the Bank owned intangible assets not yet put in use in the amount of EUR 3.1 million (2021: EUR 3.3 million).

During the year 2022 the Bank put in use upgrade of the core banking system, which amounted EUR 6.5 million (2021: EUR 6.0 million).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

30. OTHER ASSETS

EUR ths.	31.12.2021	31.12.2022
Client settlement	28,565	10,742
Personnel balances	192	715
State budget, social and health insurance, taxes	-	906
Sundry assets	6,934	12,211
Thereof: deferred cost	6,163	11,165
Other assets	**35,691**	**24,574**

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.	31.12.2021	31.12.2022
Outstanding lease payments	253,955	312,042
Gross investment	**253,955**	**312,042**
Unrealised financial income	(15,185)	(23,900)
Net investment	**238,770**	**288,142**
Present value of outstanding lease payments	**238,770**	**288,142**

Maturity analysis by residual maturities

EUR ths.	31.12.2021		31.12.2022	
	Gross investment	Present value of outstanding lease payments	Gross investment	Present value of outstanding lease payments
< 1 year	72,632	68,448	64,289	58,512
1-2 years	46,436	43,317	54,139	49,523
2-3 years	35,350	33,014	47,771	44,158
3-4 years	27,929	26,164	35,269	32,549
4-5 years	20,842	19,561	25,917	23,796
> 5 years	50,766	48,267	84,657	79,603
Total	**253,955**	**238,771**	**312,042**	**288,141**

During 2022, the Bank recognised interest income on finance lease receivables in the amount of EUR 5.3 million (2021: EUR 5.0 million). Gains/losses from derecognition of finance lease receivables are recognized in line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

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 31.12.2022											
General governments	993	70	-	-	1,063	(1)	-	-	-	(1)	1,062
Other financial corporations	39	-	-	-	39	-	-	-	-	-	39
Non-financial corporations	248,072	32,608	3,951	247	284,878	(389)	(502)	(2,597)	(11)	(3,499)	281,379
Households	1,526	367	268	-	2,161	(3)	(7)	(131)	-	(141)	2,020
Total	**250,630**	**33,045**	**4,219**	**247**	**288,141**	**(393)**	**(509)**	**(2,728)**	**(11)**	**(3,641)**	**284,500**

	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	(2)	-	-	-	(2)	1,325
Other financial corporations	37	-	-	-	37	-	-	-	-	-	37
Non-financial corporations	205,363	23,298	5,391	-	234,052	(1,240)	(505)	(3,085)	-	(4,830)	229,222
Households	1,967	452	936	-	3,355	(2)	(2)	(500)	-	(504)	2,851
Total	**208,694**	**23,750**	**6,327**	**-**	**238,771**	**- (1,244)**	**(507)**	**(3,585)**	**-**	**(5,336)**	**233,435**

Movement in credit loss allowances

EUR ths.	01.01.2022	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	31.12.2022
Stage 1	(1,244)	(134)	3	142	840	-	(393)
Stage 2	(506)	-	3	(204)	198	-	(509)
Stage 3	(3,586)	-	692	(86)	(350)	602	(2,728)
POCI	-	-	73	-	(84)	-	(11)
Total	**(5,336)**	**(134)**	**771**	**(148)**	**604**	**602**	**(3,641)**

EUR ths.	01.01.2021	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	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)**

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 2022 or initial recognition date to Stages 2 or 3 as of 31 December 2022 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 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 2022 to a different stage compared to 1 January 2022 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages

EUR ths.	2021	2022
Transfers between Stage 1 and Stage 2	**48,445**	**31,653**
To Stage 2 from Stage 1	5,463	24,944
To Stage 1 from Stage 2	42,982	6,709
Transfers between Stage 2 and Stage 3	**276**	**393**
To Stage 3 from Stage 2	246	110
To Stage 2 from Stage 3	30	283
Transfers between Stage 1 and Stage 3	**533**	**1,199**
To Stage 3 from Stage 1	465	1,170
To Stage 1 from Stage 3	68	29

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 2022 amounts to EUR 109.3 million (2021: EUR 53.5 million). The gross carrying amounts of the finance lease receivables that were held at 1 January 2022 and fully de-recognized during the year 2022 amounts to EUR 2.6 million (2021: EUR 0.4 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 statement of financial position as part of 'Property and equipment, right-of-use assets'

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. In the statement of financial position, the lease liabilities are presented in the line item 'Lease liabilities'.

The Bank primarily rents real estate such as buildings and land for headquarters, branches and parking lots. For details related to right of use assets capitalized in statement of financial position arising from leases where the Bank is lessee, please see Note 28 Property, equipment, investment properties and right of use assets.

Maturity analysis of lease liabilities based on undiscounted cash flows

EUR ths.	31.12.2021	31.12.2022
< 1 year	13,182	13,964
1-5 years	18,499	41,599
> 5 years	658	40,399
Total	**32,339**	**95,962**

During 2022, interest expenses on lease liabilities were recognised in the amount of EUR 0.8 million (2021: EUR 0.0 million). In addition, expenses in the amount of EUR 0.7 million (2021: EUR 0.7 million) relating to short term leases and expenses amounting to EUR 0.0 million (2021: 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 2022 was EUR 15.2 million (2021: EUR 14.9 million).

ACCRUALS, PROVISIONS, CONTINGENT LIABILITIES AND LEGAL PROCEEDINGS

31. OTHER LIABILITIES

EUR ths.	31.12.2021	31.12.2022
Client settlement	25,296	26,869
Trade payables	43,918	59,396
Personnel balances and social fund	35,794	37,744
State budget, social and health insurance, taxes	5,882	5,299
Sundry liabilities	3	2,213
Other liabilities	**110,893**	**131,521**

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.	2021	2022
As at 1 January	**4,359**	**3,907**
Additions	2,837	5,795
Withdrawals	(3,288)	(2,753)
As at 31 December	**3,907**	**6,950**

32. PROVISIONS

Provisions are liabilities with uncertain timing or amount. The statement of financial position line item 'Provisions' includes:

- provisions for defined employee benefit plans recognised based on requirements of IAS 19 Employee benefits

- provisions for loan commitments and financial guarantees recognised based on requirements for the expected credit loss model under IFRS 9; and

- remaining classes of provisions recognised in accordance with IAS 37 Provisions, contingent liabilities and contingent assets such as provisions or litigation, restructuring, commitments and guarantees not in scope of IFRS 9.

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 24 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 33 Contingent liabilities.

Following classes of provision can be distinguished in the business of the Bank:

EUR ths.	31.12.2021	31.12.2022
Long-term employee provisions	7,577	5,596
Pending legal issues and tax litigation	9,602	9,857
Loan commitments and financial guarantees given	24,651	21,037
Other provisions	1,384	2,482
Restructuring	250	179
Other	1,134	2,303
Provisions	**43,214**	**38,972**

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 statement of financial position 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 statement of financial position. 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’.

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.	01.01.2022	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2022
Provisions for commitments and guarantees given						
Stage 1	5,356	45,229	(23,783)	(22,637)	(68)	4,097
Stage 2	7,445	-	(10,715)	(754)	14,462	10,438
Stage 3	572	-	(628)	1,424	578	1,946
POCI	11,278	-	(1,039)	(5,683)	-	4,556
Total	**24,651**	**45,229**	**(36,165)**	**(27,650)**	**14,972**	**21,037**

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**

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 performs 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 statement of financial position, in the income statement and in the statement of other comprehensive income were as follows:

EUR ths.	Long-term employee provision	Working anniversaries provision	Total
Present value of long-term employee benefit obligations – 1 January 2021	**4,364**	**3,256**	**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 December 2021	**4,495**	**3,082**	**7,577**
Service cost	188	166	354
Interest cost	8	5	13
Payments	(191)	(278)	(469)
Actuarial gains/losses recognised in OCI	(1,006)	(873)	(1,879)
Experience adjustments	(1,006)	(873)	(1,879)
As at 31 December 2022	**3,494**	**2,102**	**5,596**

Actuarial assumptions

The actuarial calculation of long-term employee provision used the following assumptions:

Long-term employee provision	2021	2022
Annual discount rate	0.17%	1.72%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	4,28% - 10,95%	6,61% - 24,81%
Retirement age	64 years	64 years

The actuarial calculation of working anniversaries provision used the following assumptions:

Working anniversary provision	2021	2022
Annual discount rate	0.17%	1.72%
Annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	4,28% - 10,95%	6,61% - 24,81%
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 statement of financial position. The analysis is based on relative change in employee turnover by 10%.

EUR ths.	31.12.2021	31.12.2022
Change in the annual employee turnover +10%	4,272	3,276
Change in the annual employee turnover -10%	4,733	3,734

Provisions for pending legal issues and tax litigation and other provisions

Based on the requirement of IAS 37, 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. Expenses or income related to these provisions are reported in the statement of income under the line item ‘Other operating result’.

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 2022 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.	01.01.2022	Additions	Use	Release	31.12.2022
Restructuring provision	250	-	(71)	-	179
Pending legal issues and tax litigation	9,602	636	(324)	(57)	9,857
Other provisions	1,134	36,374	(15,751)	(19,454)	2,303
Total	**10,986**	**37,010**	**(16,146)**	**(19,511)**	**12,339**

EUR ths.	1.1.2021	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**	**36,202**	**(15,394)**	**(17,755)**	**10,987**

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

33. 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 statement of financial position, they do involve credit risk and are therefore part of the overall risk of the Bank (see Note 24 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

34. TOTAL EQUITY

in EUR ths.	31.12.2021	31.12.2022
Subscribed capital	212,000	212,000
Retained earnings and other reserves	1,434,032	1,565,180
Additional equity instruments	380,000	380,000
Owners of the parent	**2,026,032**	**2,157,180**
Total	**2,026,032**	**2,157,180**

As of 31 December 2022, subscribed capital (also known as registered capital) consists of 212,000 (2021: 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 2021 (approved) and 2022 (proposed):

Profit distribution (in EUR ths.)	31.12.2021	31.12.2022
Profit for the year	239,428	244,559
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	3,592
Dividends paid to shareholder from profit for the year	97,158	106,931
Transfer to retained earnings	125,223	120,582
Number of shares with nominal value of EUR 1 000 (in pcs.)	212,000	212,000
Dividend per share (in EUR)	**458**	**504**

Dividends for the year 2021 were paid in March 2022 following the resolution of General Assembly of the Bank dated 22 March 2022.

As at 27 February 2022 was paid coupon payment from investment certificate SLSP AT1 PNC5 IC 2020 in amount of EUR 3.1 million.

On 23 May 2022, a coupon was paid from the investment certificate SLSP AT1 PNC5 IC 2020 II in the value of EUR 3.6 million and then on 25 May 2022, a coupon from the investment certificate EUR 80,000,000 Undated Fixed to Fixed Resettable Additional Tier 1 Notes was paid in the amount of EUR 1.8 million.

On 30 August 2022 was paid the coupon payment from investment certificate SLSP AT1 PNC5 IC 2020 in amount of EUR 3.1 million.

On 23 November 2022 was paid from coupon payment from investment certificate SLSP AT1 PNC5 IC 2020 II in amount of EUR 3.6 million and then on 25 November 2022, a coupon from investment certificate EUR 80,000,000 Undated Fixed to Fixed Resettable Additional Tier 1 Notes was paid in the amount of EUR 1.8 million.

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 2022 Legal reserve fund amounted to EUR 79.8 million (2021: 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 2022 Statutory fund amounted EUR 39.1 million (2021: 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 2022 the revaluation of financial assets measured at fair value through other comprehensive income amounted to EUR 0.0 million (2021: 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 2022 the remeasurement of the pension provision amounted EUR 1,0 million (2021: EUR 1.8 million), net of deferred tax.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

35. 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 statement of financial position 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	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Subsidiaries						
Procurement Services SK, s.r.o.	3	3	-	-	3	3
SLSP Social Finance, s.r.o.	3,050	3,050	-	-	3,050	3,050
LANED a.s.	25,807	25,807	-	-	25,807	25,807
SLSP Seed Starter, s.r.o.	-	500	-	-	-	500
Total	**28,860**	**29,360**	**-**	**-**	**28,860**	**29,360**

Investments in subsidiaries of Slovenská sporiteľňa, a.s.

EUR ths.	Procurement Services SK, s.r.o.		SLSP Social Finance, s.r.o.		LANED a.s.		SLSP Seed Starter, s.r.o.	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Place of business	Tomášikova 48, 832 75 Bratislava, Slovakia		Tomášikova 48, 832 01 Bratislava, Slovakia		Tomášikova 48, 832 71 Bratislava, Slovakia		Tomášikova 48, 831 04 Bratislava, Slovakia	
Main business activity	Procurement		Advisory services		Real estate company		Advisory services	
Ownership held	51%		60%		100%		-	100.0%
Voting rights held	51%		60%		100%		-	100.0%
IFRS Classification	Subsidiary		Subsidiary		Subsidiary		Subsidiary	
Reporting currency	EURO		EURO		EURO		EURO	
Dividend income received	19	19	-	-	-	-	-	-
Investee's key financial information for the reporting period								
Cash and cash balances	245	224	267	227	4,043	6,556	-	411
Other current assets	57	34	-	-	103	13	-	-
Non-current assets	36	50	11,730	11,730	49,258	46,872	-	-
Current liabilities	-	-	7,012	7,029	21,849	20,082	-	-
Non-current liabilities	278	246	8	10	133	171	-	1
Operating result	(938)	(941)	(57)	(59)	2,527	2,410	-	(90)
Post-tax result from continuing operations	36	37	(57)	(59)	1,956	1,765	-	(90)
Total comprehensive income	36	37	(57)	(59)	1,956	1,765	-	(90)
Depreciation and amortization	-	-	-	-	(3,653)	(3,695)	-	-
Interest expense	-	-	(10)	(28)	(403)	(425)	-	-
Tax expense/income	(11)	(11)	-	-	(520)	(469)	-	-

Changes in subsidiaries during the year 2022

In August 2022, the subsidiary company SLSP Seed Starter, s.r.o. was established. The Bank has an equity stake in it amount of EUR 0.5 million and this represents participation in the amount of 100% of the company's share capital.

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.

36. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Bank has significant influence in the associates and joint ventures described in the table below. In these separate financial statements the investments in associates and joint ventures are recognized at cost, less any impairment losses.

Investments in associates ('associates') and joint ventures ('joint ventures') 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	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
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**

The following table presents overview of the carrying amounts of investments in joint ventures:

EUR ths.	Cost		Impairment		Net book value	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Joint ventures						
Monilogi s.r.o.	-	1,157	-	-	-	1,157
Total	**-**	**1,157**	**-**	**-**	**-**	**1,157**

Investments in associates and joint ventures of Slovenská sporiteľňa, a.s.

	Monilogi s.r.o.*		Prvá stavebná sporiteľňa, a.s. ("PSS")**		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.	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Place of business	Mlynské nivy 1 829 90 Bratislava, Slovakia		Bajkalská 30 829 48 Bratislava, Slovakia		Mlynské nivy 14 821 09 Bratislava, Slovakia		Olbrachtova 1929/62 140 00 Praha 4, Czech Republic		Farská 48 949 01 Nitra, Slovakia	
Main business activity	Cash handling		Banking		Retail credit register		Equity release company		Rental of real estate and related services	
Ownership held	-	26.00%	9.98%		33.33%		21.78%		49.88%	
Voting rights held	-	26.00%	35.00%		33.33%		21.78%		49.88%	
IFRS Classification	Joint venture		Associate		Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO		EURO		EURO	
Investee's key financial information for the reporting year										
Cash and cash balances	-	N/A	650	427	214	268	5	3	19,954	1,554
Other current assets	-	N/A	158,611	188,902	47	28	-	-	4	92
Non-current assets	-	N/A	2.779,461	2,765,628	-	-	43,574	44,914	3,034	22,067
Current liabilities	-	N/A	2,371,046	2,370,310	5	24	-	-	48	1,039
Non-current liabilities	-	N/A	284,369	292,058	-	-	-	-	26	15
Operating result	-	N/A	37,505	34,092	(26)	(96)	(3)	(2)	(211)	(531)
Post-tax result from continuing operations	-	N/A	16,576	8,274	24	38	(3)	(2)	(217)	(449)
Total comprehensive income	-	N/A	16,576	8,274	24	38	(3)	(2)	(217)	(449)
Depreciation and amortization	-	N/A	(5,947)	(5,698)	-	-	-	-	(72)	(208)
Interest income	-	N/A	86,156	79,593	-	-	-	-	-	-
Interest expense	-	N/A	(26,795)	(22,051)	(2)	(2)	-	-	(1)	-
Tax expense/income	-	N/A	(5,206)	(4,968)	-	-	-	-	-	-

*Results of the joint venture Monilogi, s.r.o. were not known as of the date of processing the financial statements.
**In the table are disclosed unaudited data for 11 months.

Changes in associates and joint ventures during the year 2022

In May 2022, the Bank made a cash deposit in the amount of EUR 0.1 million to the joint venture Monilogi, s.r.o., which represents a 26% share in its management. During the second half of the year 2022, the Bank invested in the joint venture Monilogi, s.r.o. contribution to capital funds in the amount of EUR 0.6 million and a non-monetary deposit in the amount of EUR 0.5 million without changing the stake in its management.

Changes in associates and joint ventures 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

OTHER DISCLOSURE MATTERS

37. 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, associates and joint ventures, 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 and joint ventures	
EUR ths.	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**
Assets								
Cash and cash balances	5,261	14,302	225	452	-	-	-	-
Derivatives	6,834	55,012	27	-	-	-	-	-
Derivatives – Hedge accounting	11,540	15,354	-	-	-	-	-	-
Securities	-	-	-	-	5,996	4,637	5,254	5,262
Loans and advances to banks	1,805	4,595	62	1	-	-	1	-
Loans and advances to customers	-	-	1,989	1,589	21,851	20,082	-	-
Property and equipment, right-of-use	-	-	-	-	12,255	60,563	-	-
Other assets	-	1	-	-	-	-	-	-
Total	**25,440**	**89,264**	**2,303**	**2,042**	**40,102**	**85,282**	**5,255**	**5,262**
Liabilities								
Derivatives held for trading	39,643	21,633	-	18	-	-	-	-
Deposits from banks	676	85	1,170	753	-	-	189	108
Deposits from customers	-	-	6,307	4,050	4,552	7,414	-	-
Debt securities issued	573,274	431,579	2,988	2,833	-	-	-	-
Derivatives – hedge accounting	31,844	103,266	-	-	-	-	-	-
Lease liabilities	-	-	-	-	12,282	60,521	-	-
Other liabilities	2,873	153	332	1,540	(46)	-	-	-
Total	**648,310**	**556,716**	**10,797**	**9,194**	**16,788**	**67,935**	**189**	**108**

Expenses/Income generated by transactions with related parties

	Erste Group Bank AG		Companies of Erste Group		Subsidiaries		Associates and joint ventures	
EUR ths.	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Interest income	(7,818)	(3,296)	7	47	409	519	100	213
Interest expense	1,644	2,748	(8)	(124)	-	(838)	(10)	(2)
Dividend income	-	-	-	-	18	19	-	-
Net fee and commisssion income	(473)	174	13,494	16,705	33	-	1	3
Net trading result	14,352	28,675	(226)	(94)	-	-	-	-
Gains/losses from financial instruments measured at fair value through profit or loss	-	-	-	-	61	(1,360)	-	-
General administrative expenses	(6,006)	(3,231)	(17,856)	(19,614)	(1,014)	(1,073)	-	(8)
Depreciation and amortisation	-	-	-	-	(7,018)	(6,565)	-	-
Other operating result	(2,048)	48	477	605	11,050	46	7	296
Total	**(349)**	**25,118**	**(4,112)**	**(2,475)**	**3,539**	**(9,252)**	**98**	**502**

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 2022 were purchased by Erste Group Bank AG (see note 34).

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 (2021: EUR 2.2 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 (2021: EUR 0.2 million).

As at 31 December 2022 the Bank owned a share in real estate fund Sporo realitny fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of EUR 1.0 million (2021: EUR 1.4 million).

As at 31 December 2022 and in 2021, 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 2022 in form of short-term employee benefits amounted to EUR 3.3 million (2021: EUR 3.2 million). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

38. AUDIT FEES AND TAX CONSULTANCY FEES

The following table contains fees charged by the auditors of the Bank for the financial years 2022 and 2021; the auditors being PricewaterhouseCoopers Slovensko, s.r.o.

EUR ths.	2021	2022
Audit of statutory financial statements	(546)	(691)
Other assurance services	(170)	(28)
Other non-audit services	(3)	(3)
Total	**(719)**	**(722)**

Other assurance services in the amount of EUR 28 thousand (2021: EUR 170 thousand) 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. Other non-audit services in the amount of EUR 3 thousand (2021: EUR 3 thousand) 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.

39. ANALYSIS OF REMAINING MATURITIES

Expected remaining maturities of assets and liabilities

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2021		31.12.2022	
Assets				
Cash and cash balances	2,907,420	-	1,254,543	-
Financial assets HfT	11,181	36,693	6,183	70,956
Derivatives	11,181	36,693	6,183	70,956
Non-trading financial assets at FVPL	-	21,064	-	21,843
Equity instruments	-	7,155	-	9,694
Debt securities	-	13,909	-	12,149
Financial assets at AC	2,215,545	17,302,993	2,903,240	18,760,963
Debt securities	70,425	3,841,234	434,854	3,720,046
Loans and advances to banks	49,983	-	26	-
Loans and advances to customers	2,095,137	13,461,759	2,468,360	15,040,917
Finance lease receivables	63,112	170,323	54,871	229,629
Hedge accounting derivatives	-	16,454	-	16,879
Property and equipment, right-of-use assets	-	110,972	-	162,420
Investment properties	-	1,518	-	1,453
Intangible assets	-	18,947	-	17,868
Investments in associates	-	37,002	-	38,659
Deferred tax assets	-	67,843	-	69,979
Trade and other receivables	128,930	-	155,526	-
Other assets	35,692	-	24,574	-
Total assets	**5,361,880**	**17,783,809**	**4,398,937**	**19,390,649**

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2021		31.12.2022	
Liabilities				
Financial liabilities HfT	11,782	34,349	5,669	67,864
Derivatives	11,782	34,349	5,669	67,864
Financial liabilities at AC	16,306,933	4,546,116	17,118,172	4,077,849
Deposits from banks	34,929	2,858,418	62,736	1,110,892
Deposits from customers	15,949,101	28,214	16,904,447	15,722
Debt securities in issued	286,377	1,659,484	37,199	2,951,235
Other financial liabilities	36,526	-	113,790	-
Lease liabilities	13,180	19,153	11,580	70,138
Hedge accounting derivatives	-	31,844	684	102,582
Provisions	26,034	17,180	23,519	15,453
Current tax liabilities	2,193	-	7,374	-
Other Liabilities	110,892	-	131,521	-
Total liabilities	**16,471,014**	**4,648,642**	**17,298,519**	**4,333,886**

40. RECONCILIATION OF CARRYING AMOUNTS IN THE SEPARATE STATEMENT OF CASH FLOWS

As of 31.12. 2022, the Bank decided to modify the structure of the Separate Statement of Cash Flows. This change is in order to be consistent in presentation with the parent company Erste Group Bank AG. The new structure of the Separate Statement of Cash Flows provides information that is reliable and more relevant to users in accordance with IAS 1 Article 45 and 46. The new calculation is based on net profit in comparison to profit before taxes used before. As for the adjustments of cash flows from operating activities, we excluded the mandatory minimum reserves in the NBS to be in line with the market practise. Therefore, the balances of cash and cash equivalents in the Separate Statement of Cash Flows corresponds to the balances in Separate Statement of Financial Position.

The following tables presents changes between the individual lines of the statement as of 31.12.2021. In order to present the impact of changed structure, these effects are disclosed in accordance with the original positions of the Separate Statement of Cash Flows.

Original structure of the statement	New structure of the statement	Original carrying amount	New carrying amount
EUR ths.	**EUR ths.**	**2021**	**2021**
Profit before income taxes	**Net result for the period**	**312,942**	**239,428**
Non-cash adjustments for:	Non-cash adjustments for items in net profit/loss for the year		
Loss allowances for loans and advances, Provisions for off-balance sheet	Net allocation of credit loss allowances and other provisions	1,172	3,853
Provisions for liabilities and other liabilities	Net allocation of credit loss allowances and other provisions	2,681	
Impairment of tangible and intangible assets net	Depreciation, amortisation, impairment and reversal of impairment of assets	(1,546)	35,273
Depreciation and amortization	Depreciation, amortisation, impairment and reversal of impairment of assets	36,819	
Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	Gains/(losses) from measurement and derecognition of financial assets and financial liabilities	(113)	(113)
Accrued interest, amortisation of discount and premium	Accrued interest, amortisation of discount and premium	35,059	35,059
Fair value adjust - hedging	Fair value adjust - hedging	(17,974)	(17,974)
Profit/(loss) on disposal of fixed assets	Other adjustments	161	(3,205)
Transfer of dividends received to investing activities	Other adjustments	(608)	
Investments in subsidiaries and associates	Other adjustments	(11,022)	
Cash flows from operations before changes in operating assets and liabilities	**Cash flows from operations before changes in operating assets and liabilities**	**357,571**	
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the central bank		(1,129,869)	
Financial assets held for trading	Financial assets held for trading	12,120	12,120
Non-trading financial assets at fair value through profit or loss	Non-trading financial assets at fair value through profit or loss	(5,084)	-
Equity instruments	Equity instruments	504	504
Debt securities	Debt securities	(5,588)	(5,588)
Financial assets at fair value through other comprehensive income	Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	Financial assets at amortised cost	(1,284,631)	
Debt securities	Debt securities	(250,137)	(250,137)
Loans and advances to banks	Loans and advances to banks	(49,934)	(49,934)
Loans and advances to customers	Loans and advances to customers	(984,560)	(984,560)
Finance lease receivables	Finance lease receivables	7,138	7,138
Hedge accounting derivatives	Hedge accounting derivatives	17,891	17,891
Trade and other receivables	Trade and other receivables	(47,333)	(47,333)
Other assets from operating activities	Other assets from operating activities	(15,186)	(15,186)
Increase / (decrease) in operating liabilities:			

Table continues on the following page.

EUR ths.	EUR ths.	2021	2021
Increase / (decrease) in operating liabilities:			
Financial liabilities held for trading	Financial liabilities held for trading	(10,393)	(10,393)
Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	2,250,697	
Deposits from banks	Deposits from banks	1,183,092	1,183,092
Deposits from customers	Deposits from customers	1,053,584	1,053,584
Other financial liabilities	Other financial liabilities	14,021	14,021
Hedge accounting derivatives	Hedge accounting derivatives	(16,529)	(16,529)
Provisions	Other liabilities from operating activities	8,520	8,520
Other liabilities from operating activities	Other liabilities from operating activities	29,307	11,317
Net cash flows provided by / (used in) operating activities before income tax		**174,219**	
Income taxes paid		(83,240)	
Net cash flows provided by / (used in) operating activities	**Cash flow from operating activities**	**90,979**	**1,220,848**
Cash flows from investing activities		-	
Dividends received from associates and other investments	Dividends received from subsidiaries, associates and other investments	608	608
Purchase of share in associates	Purchase of share in subsidiaries, associates and joint ventures	(1,000)	(1,000)
Proceeds from sale of investments	Proceeds from sale of associates and other investments	25,925	25,925
Capital increase in subsidiaries and associates	Capital increase in subsidiaries and associate	24,848	24,848
Purchase of intangible assets, property and equipment	Purchase of intangible assets, property and equipment	(20,843)	(20,843)
Proceeds from sale of intangible assets, property and equipment	Proceeds from sale of intangible assets, property and equipment	796	796
Net cash flows provided by / (used in) investing activities	**Cash flow from investing activities**	**30,334**	**30,334**
Cash flows from financing activities		-	
Dividends paid	Dividends paid	(53,926)	(53,926)
AT1 certificate - issue	AT1 certificate - issue	80,000	80,000
Repayment of subordinated debt	Repayment of subordinated debt	(10,000)	(10,000)
Issue of subordinated debt	Issue of subordinated debt	-	-
Issue of the bonds	Issue of the bonds	231,347	231,347
Repayment of the bonds	Repayment of the bonds	(295,591)	(295,591)
Lease liabilities	Lease liabilities	(13,753)	(13,753)
Net cash flows provided by / (used in) financing activities	**Cash flow from financing activities**	**(61,923)**	**(61,923)**
Net increase / (decrease) in cash and cash equivalents		**60,065**	
Cash and cash equivalents at beginning of period	**Cash and cash equivalents at beginning of the year**	**363,352**	**1,717,486**
	Cash flows from operating activities		1,220,848
	Cash flow from investing activities		30,334
	Cash flow from financing activities		(61,923)
Effect of foreign exchange rate changes on cash and cash equivalents	Effect of foreign exchange rate changes on cash and cash equivalents	675	674
Cash and cash equivalents at end of period	**Cash and cash equivalents at end of the year**	**423,417**	**2,907,420**
Operational cash flows from interest and dividends (included in cash flow from operating activities)	**Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)**	**361,604**	**361,604**
Income taxes paid	Payments for taxes on income	(83,240)	(83,240)
Interest paid	Interest paid	(32,941)	(32,941)
Interest received	Interest received	477,177	477,177
Dividends received	Dividends received	608	608

41. EVENTS AFTER THE BALANCE SHEET DATE

There are no significant events after the balance sheet date that require disclosure or adjustment to these separate financial statements.

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

RNDr. Milan Hain, PhD.

Member of the Board of Directors
and Deputy of Chief Executive Officer

Bratislava, 27 February 2023