

ANNUAL
REPORT
STAVEBNÁ
SPORITELŇA

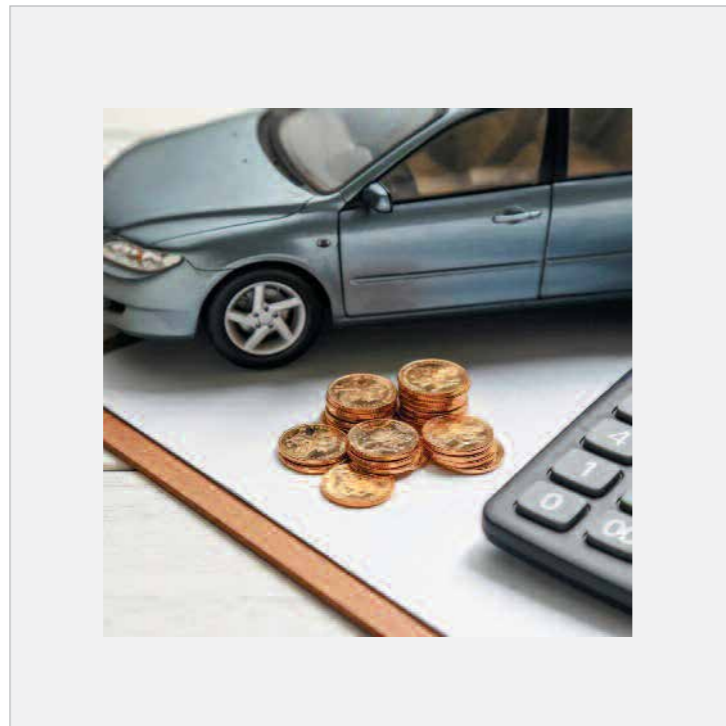
2021

wustenrot

STAVEBNÉ SPORENIE | ÚVERY

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FOREWORD OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



Dear Shareholders, Business Partners, Clients, Fellow Workers, Dear Colleagues,

2021 was the second year in a row that was strongly affected by the COVID-19 pandemic. New coronavirus variants and mutations also impacted the financial sector. Market players faced restrictions and unpredictable staff shortages. Households had to cope with increasing inflation, and concerns regarding an energy crisis surfaced late in the year in Slovakia.

War broke out in Ukraine at the end of February 2022. So far, Wüstenrot stavebna sporitelna has not seen any direct impacts of the war on our business activities, and we do not expect significant direct impacts in the future.

The Wüstenrot Group in Slovakia launched a long-prepared plan to discontinue offering new building savings products and interim loans. Upon leaving the building society market, the Group successfully entered the comprehensive financial services market.

The decision to stop selling new interim loans and saving products was due to the long-term development on the Slovak market. Traditional building societies have become less and less competitive compared to banking institutions.

On a market with negative interest rates, building societies are no longer able to offer an attractive solution for housing financing to clients. After a reduction of the state bonus in 2019, the position of building societies in the savings market weakened further.

The general trend of a declining interest in building society products was also heightened by developments in 2021.

Due to unfavourable factors and the long-prepared decision to discontinue operations on the building savings market, Wüstenrot stavebná sporiteľňa, a.s. posted a loss of EUR 0.75 million.

The Wüstenrot Group now provides a full range of comprehensive financial services for clients via a newly established company, Wüstenrot InHouse Broker. This new entity gives the Group access to a wide range of financial products, including loans, savings, deposits, and the capital market.

The first figures demonstrate the success of the new strategy. For the first months of the new company's existence, deposits for the target amount of EUR 2 million were

made in 2021. Loans in a total amount of almost EUR 12 million were intermediated.

Considering the changed business strategy, discontinuance of new sales by the building society, and developments on the financial market in 2022, it is likely that the number of our clients will further decrease.

The successful transformation of the group's business model would not have been possible without the great personal commitment of all our employees – at headquarters and in the regions. Thanks to their hard work and commitment, the group succeeded in implementing its new business strategy despite the turbulence.

March 2022

Ing. Marian Hrotka, PhD.
Chairman of the Board of Directors


ABOUT COMPANY

Company profile

Company name	Wüstenrot stavebná sporiteľňa, a.s.
Headquarters	Grösslingova 77, 824 68 Bratislava
Share capital	16 597 000 EUR
Identification number	31 351 026
Call centrum	*6060 (0850 60 60 60)
Internet	www.wuestenrot.sk
E-mail	infosporitelna@wuestenrot.sk

Shareholders of the company as at 31 December 2021

Sole shareholder

 wüstenrot	Bausparkasse Wüstenrot Aktiengesellschaft Alpenstraße 70, 5020 Salzburg, Austria	100 %
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Company bodies as at 31 December 2021

General Meeting	comprises of the sole shareholder of the Company	
Supervisory Board	Mag. Gerald Hasler	Chairman (since 20 June 2021)
	Prof. Dr. Andreas Grünbichler	Chairman (up to 20 June 2021)
	Dr. Susanne Riess	Vice-chairman
	Mag. Christine Sumper-Billinger	Member (since 25 November 2021)
	Mag. Gerald Hasler	Member (up to 20 June 2021)
Board of Directors	Ing. Marian Hrotka, PhD.	Chairman (since 23 March 2021)
	Mag. Christian Sollinger, CIAA	Chairman (up to 23 March 2021)
	Dr. Klaus Wöhry	Member
	Mag. Christian Sollinger, CIAA	Member (since 23 March 2021)
	Ing. Marian Hrotka, PhD.	Member (up to 23 March 2021)

Company history

Wüstenrot is a financial group originally established in Germany and Austria. It commenced operations as a building society in continental Europe in 1921. The group entered the Slovak market in 1993, when Stavebná sporiteľňa VÚB-Wüstenrot, a.s. with a specific banking license was established in accordance with the Slovak Building Saving Act (Act No. 310/1992 Coll. on Saving with a Building Society, as amended). In 2004, after changes to the shareholder structure, our company changed its business name to Wüstenrot stavebná sporiteľňa, a.s.

Company principles and values

Building long-term relationships	- with clients, business partners, employees and co-workers
Efficiency	- is part of everyday communication and management processes
Reliability	- we fulfil set obligations and agreements
Tradition	- we are part of the stable multinational Wüstenrot Group
Fair play	- we honor a fair approach and honesty
Innovative	- we improve products and processes in order to be unique
Respect	- we value the work and opinions of clients, business partners, employees and co-workers
Maximum responsibility	- full commitment is a prerequisite for the success of any activity
Commitment	- we actively work to achieve the set goals

Marketing activities

The year 2021 was a big challenge for marketing. In addition to the COVID-19 pandemic, Wüstenrot stavebná sporiteľňa, a.s. (hereafter the “Company” or “we”) decided to abandon the concept of being solely a building society. We stopped offering new building saving products and interim loans.

This strategic decision brought fundamental changes to our marketing communication. Though product marketing support was ended, direct and indirect communication with clients was intensified. The Company applied a fair and open approach to clients and informed them in detail about its new business strategy.

Therefore, we proactively communicated the ending of offering new building saving products and granting interim loans via PR tools and online media that has the biggest impact on the general public.

Clients affected by this change were also directly contacted by letter in which the new strategy was explained.

The new strategy was successfully and openly communicated in a combined CRM and PR campaign, which eliminated the risk of misunderstanding or concerns of clients.

As regards direct communication with clients, the Company has the unofficial slogan: “We are changing our strategy but not our fair approach”. The Company will transparently explain to clients, the specialised and general public, the reasons for the change in our business strategy, and our objectives in advance – to obtain access for the group to comprehensive financial services.

Last year, the Company did not perform principal communication activities related to the support of specific products.

The environmental impacts of the Company’s activities were proportionate to the administrative character of its business. In this area, the Company focused on digitization and the use of electronic forms of communication, resulting in a significant reduction of paper consumption.

Report of the HR department

No discrimination

All Company employees are equal and principles of equal treatment in employment relations by the Slovak Anti-Discrimination Act (Act No. 365/2004 Coll. on Equal Treatment in Certain Areas and Protection against Discrimination, and on Amendments to Certain Acts) are strictly applied.

Working hours and annual leave

Employees may use flexible working hours under agreed conditions. The Company takes measures to ensure a favourable work-life balance of its employees. Before leaving for, and after returning from, maternity or parental leave, employees may request to work part-time. In 2021, 6 employees (2.7%) worked part-time. Home office became commonplace during the pandemic. Almost all employees may work from home, as they have the necessary IT equipment and company mobile phones with data services, which are also available for private purposes.

Employee care

In 2021, we amended the Healthy Company Programme and provided employees (upon return to work) with face masks and respirators several times a year. In particular, we are well aware of how difficult it is to balance private and work duties when working from home. Our approach and communication respect this new situation and we help our staff obtain the right work-life balance and we respect the right to disconnect. The Company promotes the improvement of language skills – English and German courses, conducted online, are paid for in full by the Company. We know that the long-lasting pandemic and isolation from colleagues when working from home has adversely affected the mental well-being of our staff. Therefore, we offered free psychological consultancy from experienced experts to our employees from late 2021. Five members of staff used this assistance on an anonymous basis.

Employee engagement support

Corporate culture promotion and employee engagement support are conducted via the reference Finding New Colleagues programme. Employees can recommend suitable candidates from outside of the company for vacant job positions in return for a financial bonus. The objective is to increase the success rate of filling vacancies as compared to standard forms of recruitment.

In 2021, we ran the Colleague of the Year contest again. The winners contributed significantly to the quality of cooperation between divisions and departments and were rewarded for their hard work and help provided to others. The Company again took a TOP 10 position in the Banking Sector, Finances, and Insurance Industry category in the prestigious Best Employer in 2021 poll.

Diversity

At 31 December 2021, the Company had 223 employees with an average age of 43 years, of which 72% were women. Women occupied 47.2% of managerial positions.

REPORT OF THE BOARD OF DIRECTORS

The economic outlook for 2022 is currently very uncertain and depends on the development of the war in Ukraine and the impact of sanctions and other measures. The slowdown in global economic activities will impact our economy mainly via weaker foreign demand. GDP growth estimates in Slovakia have been significantly reduced and currently range between 1.7% - 2.8%. GDP growth will be dependent on the development of the war. Global inflationary pressures will continue to increase and in 2022, inflation of 7.6% - 7.8% is expected. The rapid growth of energy prices will have a significant adverse impact on domestic demand.

However, the extent of the consequences of these events on the Company cannot currently be exactly quantified. No significant direct impacts have been observed so far. Our Company has no direct exposures to Russia, Belarus, or Ukraine. We are continually monitoring the situation and evaluating its impacts on the economic environment, but expect no significant direct impacts on the Company's economic situation.

In 2021, the world economy strongly recovered. The majority of advanced economies exceeded the pre-crisis level despite new coronavirus mutations, mainly due to the increasing vaccination rate and loosening of central bank monetary policy. According to preliminary Eurostat estimates, EU GDP grew by 5.2% in 2021. According to NBS preliminary estimates, Slovak GDP grew by 3.0% in 2021. The loosening of anti-pandemic measures boosted household demand, but recovery on the supply side was slower, which was reflected in rising inflation in the second half of 2021.

Very low interest rates have increased the availability of funds even for lower-income consumers. Demand for loans remains at a relatively good level. However, a gradual increase in interest rates is expected. The banking sector has high volumes of liquidity at its disposal.

Development analysis and expectations for 2022

At the beginning of the second half of 2021, the Wüstenrot Group decided to change its strategy on the Slovak market, i.e. discontinue the provision of new building saving products and interim loans and gradually exit the building society market. This decision resulted in the ending of new sales, which adversely affected the Company's results and led to a decrease in market shares.

In line with the Company's new strategy, there was a gradual withdrawal of deposits in the second half of 2021. Liabilities to clients amounted to EUR 313 million at 31 December 2021 (31 December 2020: EUR 382 million). As for deposits, there was a gradual decrease in the loan portfolio in the second half of 2021. At 31 December 2021, receivables from clients amounted to EUR 337 million (31 December 2020: EUR 369 million).

The Company prepared its financial statements for the year ended 31 December 2021 in accordance with International Financial reporting Standards as adopted by the European Union, which are part of this Annual Report.

At 31 December 2021, the total amount of assets in the Company's statement of financial position (balance sheet) was EUR 406.5 million (31 December 2020: EUR 444 million). Regarding assets, there was a decrease in the balance of securities from EUR 65 million at the end of 2020 to EUR 60 million, mainly due to securities reaching maturity and the sale of one security before the maturity date. As stated above, the balance of loans and deposits declined in line with the strategy set for our Company. Regarding liabilities, there was a decrease in client deposits. Liabilities to banks grew to EUR 47 million (2020: EUR 11 million). Net interest income of EUR 6.5 million was lower by approximately EUR 1.0 million compared to 2020, which is due to the planned decrease in the loan portfolio and continuing low interest rates. Net fee and commission income of EUR 2.6 million also decreased (2020: EUR 2.7 million). In 2021, the Company created impairment allowances for loans in amount of EUR 1.9 million (net creation), which represents an increase in comparison to the previous year amounting to EUR 1.4 million. The driver for the increase was reassessment of the credit risk parameters as set out in Section 5.1.2 of the Notes to the financial statements, mainly in case of defaults.

In 2021, the Company made a loss of EUR 0.75 million due to the planned decrease in portfolio balances, continuing low interest rates, and the creation of impairment allowances for expected credit losses.

The strategic decision to stop offering new building saving products and interim loans and the withdrawal of deposits by clients seeking to refinance existing loans at other financial institutions will lead to a further decrease in the Company's portfolio balance and in the total amount of balance sheet assets. In 2022, we expect a decrease in receivables from clients to EUR 204 million and a decrease in liabilities to clients to EUR 207 million. This development will result in reduced interest income and lower fee income. The Company also plans to decrease its operating expenses. Given the planned portfolio values and the set strategy, we expect a loss in 2022. The Company will seek to continue to meet all the regulatory limits. At the end of the year, the indicator of total own funds expressed as a percentage of total risk-weighted assets is expected to be 29.9%. The Company does not plan to distribute dividends to shareholders in 2022.

REPORT OF THE SUPERVISORY BOARD

Due to extraordinary coronavirus-related measures that continued in 2021, all Supervisory Board meetings were held virtually. During three ordinary sessions, Supervisory Board members familiarised themselves with essential matters related to business policy and business development and discussed these issues with the Supervisory Board. The Supervisory Board fulfilled its controlling duties and supervising obligations set by the law and the Articles of Association. The Board of Directors submitted all requested reports and materials to the Supervisory Board on time and reported in detail on all relevant business policy issues.

The financial statements for 2020, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and audited by KPMG Slovensko, spol. s r.o., who were appointed as auditor by the Supervisory Board, were approved by the General Meeting and accepted by the Banking Supervisory Authority.

The Supervisory Board accepted the proposal for the 2020 profit distribution, agreed not to pay dividends to the shareholder, and recommended the General Meeting approve this proposal.

In 2021, changes were made to the structure of the Supervisory Board. On 20 June 2021, prof. Dr. Andreas Grünbichler resigned from his position as Chairman and left the Supervisory Board.

At the Supervisory Board meeting of 19 October 2021, Mag. Gerald Hasler was appointed Chairman. At an extraordinary session held on 25 November 2021, the General Meeting appointed Mag. Christine Sumper-Billinger as a member of the Supervisory Board.

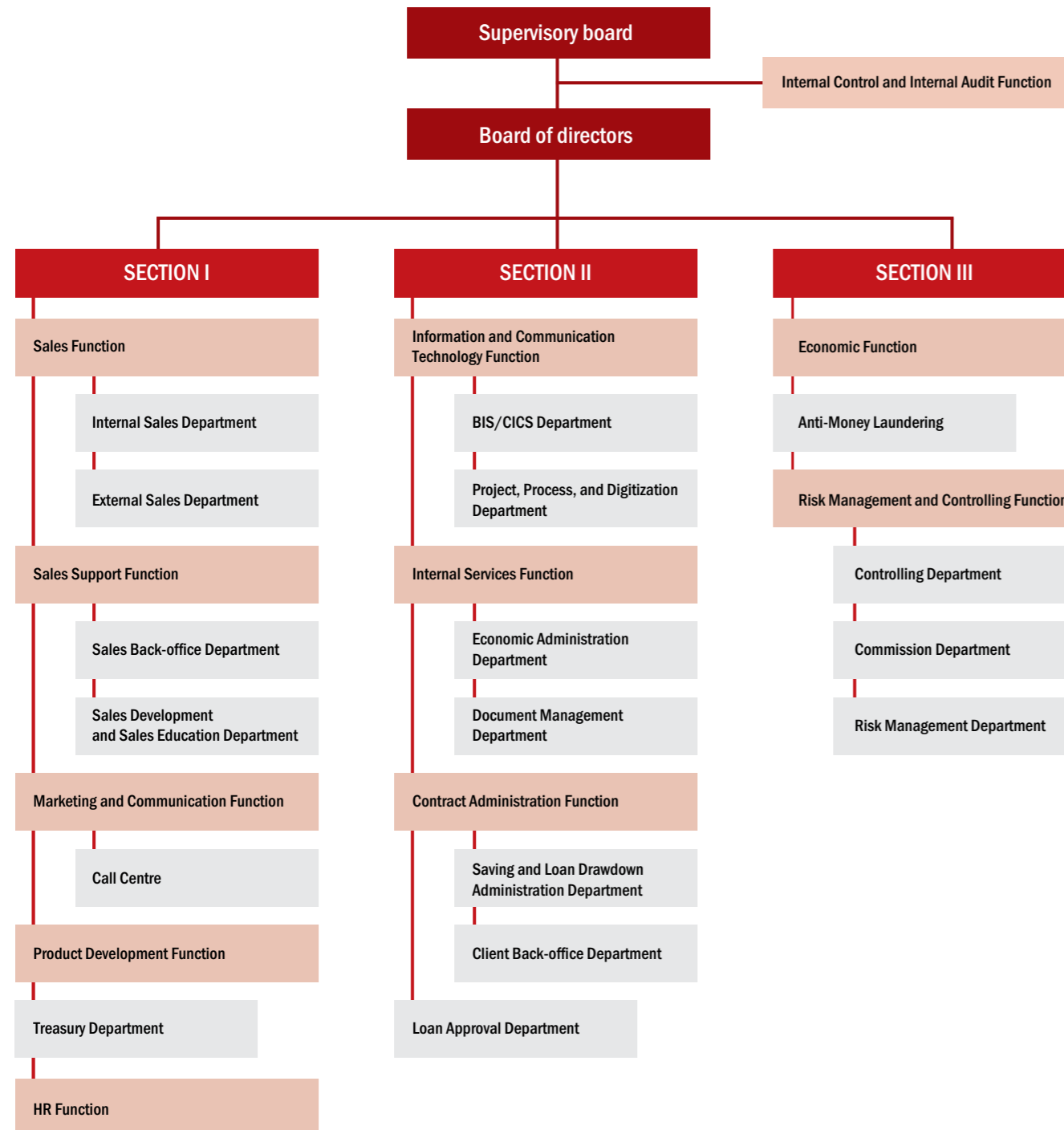
The Supervisory Board wishes to express its thanks to all its colleagues and members of the Board of Directors for productive co-operation in 2021.

Bratislava, March 2022

On behalf of the Supervisory Board

Mag. Gerald Hasler
Chairman

Organisation chart Wüstenrot stavebná sporiteľňa as at 31 December 2021



Financial statements

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

and Independent Auditor's Report



Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Wüstenrot stavebná sporiteľňa, a.s.

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Wüstenrot stavebná sporiteľňa, a.s. (the "Bank") as at 31 December 2021 and the Bank's financial performance and 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 Supervisory board performing the role of the Audit Committee dated 28 April 2022.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the 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 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 amendments and supplements to Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory Audit") that are relevant to our audit of the financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Act on Statutory Audit.

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

We did not provide any non-audit services to the Bank in the period from 1 January 2021 to 31 December 2021.

Our audit approach

Overview

Materiality	Overall materiality: EUR 960 thousand, which represents approximately 2% of net assets.
Key audit matters	Estimation of expected credit losses Initial audit engagement

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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 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 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole.

Overall materiality	EUR 960 thousand
How we determined it	Approximately 2% of net assets.
Rationale for the materiality benchmark applied	The Bank's capital is an important indicator to many users of the financial statements and the shareholder's return is also commonly expressed relative to the amount of the Bank's capital, that is, as a return on equity.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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
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Estimation of expected credit losses

As explained in Notes 4.1 and 5.1 to the financial statements, management estimated the expected credit losses to loans to customers totalling EUR 16,181 thousand.

The carrying value of loans to customers at amortised cost may be misstated if individual or collective expected credit losses are not appropriately identified and estimated. The calculation of expected credit losses represents a significant estimate, as explained in more detail in Note 4.1.

Significant management judgement is involved in the identification of significant increase of credit risk or default; the estimation of impairment including estimates of future cash flows incorporating the impact of forward-looking macroeconomic information; valuation and recoverability of collateral; implementation of comprehensive credit risk models.

In 2021, the estimate of expected credit losses was influenced by the COVID-19 pandemic.

We consider this estimate as a key audit matter due to the significance of the expected credit loss allowances and related credit losses for the year.

We assessed and tested design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans to customers.

We tested design and operating effectiveness of general IT controls, including access to programs and data, program changes and computer operations related to quantification of expected credit losses.

We verified that the models used for quantification of expected credit losses are in line with the requirements of IFRS 9.

We tested and evaluated consistent application of the models during the year, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Bank to estimate expected credit losses to loans to customers that share similar credit risk characteristics.

The underlying models and expert judgement applied by the Bank in response to the COVID-19 pandemic (that continued throughout the whole year 2021) were assessed by our specialists for financial risk management and modelling.

The specialists assessed the design and implementation of models in line with the applicable reporting standards, including management's assumption that was applied as a response to the change of strategy. The specialists assessed reasonableness of used assumptions and results. We have assessed correctness of the classification of loans to customers to stages and recalculated the expected credit losses for the respective stages as well as its presentation in the financial statements.

Key audit matter	How our audit addressed the key audit matter
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Initial audit engagement

Initial audit engagements involve additional considerations compared to recurring audits. As part of our initial audit engagement, we have to obtain sufficient understanding of the Bank, its activities, control environment and application of accounting principles in order to perform our initial audit risk assessment and plan the audit activities. We also have to address the opening balances by our audit work.

We consider this work as a key audit matter due to the importance of correctness of prior period's closing balances brought forward to the current period.

A detailed transition plan, including new client acceptance and independence clearance, was prepared prior to the start of the audit. We have considered the predecessor auditor work and discussed with them matters driven by professional standards.

As part of our top-down audit approach, we met the members of the Board of Directors in order to understand the Bank's activities and gather information for performing our initial audit risk assessment.

We obtained understanding of control activities through meetings with owners of individual business process cycles. We were able to identify relevant internal control activities and, through testing on a sample basis, we have verified their effectiveness and updated our initial assessment of the overall control environment.

Our subsequent audit work included testing of opening balances to the extent needed to form the audit opinion on the 2021 audited period as a whole.



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 financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information. In connection with our audit of the 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 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 financial statements are prepared, is consistent with the financial statements; and
- the Annual Report has been prepared in accordance with the Accounting Act.

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

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

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 financial statements, including the disclosures, and whether the 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 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 by the General Assembly on 21 June 2021. This represents a total period of uninterrupted engagement appointment of 1 year. Our appointment for the year ended 31 December 2021 was approved by the shareholder's resolution on 21 June 2021.

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

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



Martin Gallovič
Mgr. Martin Gallovič
ÚDVA licence No. 1180

28 April 2022
Bratislava, Slovak Republic

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STATEMENT OF FINANCIAL POSITION			
in thousands of EUR	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	6.1	1,561	448
Investments in debt securities	6.2	59,514	64,568
Receivables from clients	6.3	337,023	369,031
Current income tax receivable	6.13	398	125
Deferred tax asset	6.14	416	1,348
Other assets	6.8	530	782
Property, plant and equipment	6.4	470	3,932
Investment property	6.5	493	1,911
Intangible assets	6.7	1,391	1,631
Assets held for sale	6.6	4,665	0
TOTAL ASSETS		406,461	443,776
LIABILITIES			
Liabilities to clients	6.9	312,974	382,235
Liabilities to banks	6.10	46,990	10,898
Accruals and deferrals	6.11	774	402
Provisions	6.12	273	172
Withholding tax	6.15	656	841
Other liabilities	6.15	748	1,403
TOTAL LIABILITIES		362,415	395,951
EQUITY			
Share capital	6.16	16,597	16,597
Legal reserve fund	6.16	3,319	3,319
Remeasurement of financial assets at FVOCI		4,965	6,625
Retained earnings		19,165	21,284
TOTAL EQUITY		44,046	47,825
TOTAL LIABILITIES AND EQUITY		406,461	443,776

The Notes on pages 1 to 70 are an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS			
in thousands of EUR	Note	1.1.2021 - 31.12.2021	1.1.2020 - 31.12.2020
Interest income calculated using the effective interest method		12,097	12,965
Interest expense		(5,596)	(5,439)
Net interest income	6.17	6,501	7,526
Fee and commission income		2,974	2,972
Fee and commissions expense		(328)	(250)
Net fee and commission income	6.18	2,646	2,722
Net gain on the sale of securities		122	0
General operating expenses	6.19	(2,637)	(2,421)
Personnel costs	6.20	(4,003)	(3,596)
Depreciation of PPE and investment property	6.21	(234)	(262)
Amortization of intangible assets	6.21	(490)	(399)
Other operating income	6.22	387	285
Other operating expenses	6.23	(797)	(1,389)
Credit loss allowance for loans	6.24	(1,885)	(1,460)
Impairment of debt securities		2	21
Operating (loss) / profit		(388)	1,027
Impairment allowance of other assets	6.25	(359)	1
(Loss) / profit before taxes		(747)	1,028
Income tax	6.26	(1,371)	(333)
(Loss) / profit after taxes		(2,118)	695

STATEMENT OF COMPREHENSIVE INCOME

in thousands of EUR	Note	1.1.2021- 31.12.2021	1.1.2020- 31.12.2020
(Loss) / profit after taxes		(2,118)	695
Other components of comprehensive income			
Items that may be reclassified to the statement profit or loss in the future:			
Change in the fair value of FVOCI debt securities		(1,984)	(1,103)
Reclassification of profit or loss to the statement profit or loss		(118)	0
Deferred tax posted to equity accounts	6.14	441	232
Other components of comprehensive income		(1,661)	(871)
Total comprehensive income for the period		(3,779)	(176)

STATEMENT OF CHANGES IN EQUITY

31.12.2021 in thousands of EUR	Share capital	Legal reserve fund	Remeasurement of financial assets FVOCI	Retained earnings	Total
Balance as at 1.1.2021	16,597	3,319	6,625	21,284	47,825
Loss for the year 2021	0	0	0	(2,118)	(2,118)
Other components of comprehensive income					
Net change in the fair value of securities reported through aggregate profit, after taxes	0	0	(1,661)	0	(1,661)
Total comprehensive income for the period	0	0	(1,661)	(2,118)	(3,779)
31.12.2021	16,597	3,319	4,965	19,165	44,046

31.12.2020 in thousands of EUR	Share capital	Legal reserve fund	Remeasurement of financial assets FVOCI	Retained earnings	Total
Balance sheet as at 1.1.2020	16,597	3,319	7,496	20,589	48,001
Profit for the year 2020	0	0	0	695	695
Other components of comprehensive income					
Net change in the fair value of securities reported through aggregate profit, after taxes	0	0	(871)	0	(871)
Total comprehensive income for the period	0	0	(871)	695	(176)
31.12.2020	16,597	3,319	6,625	21,284	47,825

STATEMENT OF CASH FLOWS			
in thousands of EUR	Note	31 December 2021	31 December 2020
Operating activities			
Profit / (loss) before taxes		(747)	1,028
Interest income	6.17	(12,097)	(12,965)
Interest expense	6.17	5,596	5,439
Amortization of intangible assets	6.21	489	399
Depreciation of PPE and investment property	6.21	234	262
Creation of credit loss allowance for loans and securities	6.24	1,883	1,439
Creation / release of credit loss allowance for other assets	6.25	359	(5)
Other non-monetary items		(1)	0
Interest received		12,465	13,628
Interest paid		(5,996)	(5,301)
Income tax paid		(271)	(153)
Cash flows from operating activities before changes in operating assets and liabilities		1,915	3,772
Decrease/(increase) in receivables from clients	5.1	29,776	(748)
Decrease in other assets	6.8	108	153
Decrease in liabilities to clients	6.9	(68,861)	(11,610)
Increase/(decrease) in liabilities to banks	6.10	36,092	(18,800)
Decrease in other liabilities	6.15	(367)	(151)
Net cash from operating activities		(1,337)	(27,384)
Investing activities			
Cash inflow from repayment of investments in debt securities	6.2	1,000	26,848
Cash inflow from the sale of investments in debt securities	6.2	1,954	0
Additions to property, plant and equipment	6.4	(55)	(86)
Additions to intangible assets	6.7	(249)	(224)
Additions to other assets		(200)	0
Net cash used in investing activities		2,450	26,538
Change in cash and cash equivalents		1,113	(846)
Cash and cash equivalents at the beginning of the accounting period	6.1	448	1,294
Change in cash and cash equivalents consists of changes in the following items:			
Ready money		(2)	(1)
Current accounts with other banks		22	(349)
Mandatory minimum reserves - surplus		1,108	(451)
Other receivables from banks		(15)	(45)
Cash and cash equivalents at the end of the accounting period	6.1	1,561	448
Change in cash and cash equivalents		1,113	(846)

1 GENERAL INFORMATION

1.1 Business name and registered office

Wüstenrot stavebná sporiteľňa, a.s. (hereafter the "Bank") was established on 24 March 1993 and incorporated in the Commercial Register on 26 May 1993 (Commercial Register of the District Court Bratislava I, Section Sa, Insert No.: 529/B). The Bank operates under a specific banking license issued by the National Bank of Slovakia (hereafter "NBS") according to the Slovak Building Society Saving Act (Act No. 310/1992 Coll. on Saving with a Building Society, as amended).

Registered office: Wüstenrot stavebná sporiteľňa, a.s.
Grösslingova 77
824 68 Bratislava

Corporate ID (IČO): 31 351 026
Tax ID (DIČ): 2020806304

1.2 Core business activities

The Bank's core business activities:

accepting deposits from building society savers or for the benefit of building society savers;

- providing loans to building society savers from the home purchase savings fund for construction purposes set out in § 11 Section 1 of the Building Society Saving Act;
- providing guarantees to other banks for building society loans, mortgage loans, or municipal loans;
- accepting deposits from banks;
- providing payment services;
- providing advisory services within the scope of the business of a building society;
- providing financial intermediation in line with the Slovak Financial Consultancy Act (Act No. 186/2009 Coll. on Financial Consultancy and on Amendments to Certain Acts, as amended) as a contractual financial agent in the insurance and reinsurance sector;
- investing on one's own account and trading on own account in money market financial instruments in euros and in capital market financial instruments in euros; and
- accepting deposits from foreign banks, branches of foreign banks, and financial institutions.

The Bank provides its services via a network of Wüstenrot agencies and a network of Wüstenrot centres. At 31 December 2021, the network of Wüstenrot agencies included 6 agency directors, 23 business group managers, and 163 building society advisers. Bank offers its services through Wüstenrot centres ("WUC") that were created by the transformation of the Service Centres of Wüstenrot stavebná sporiteľňa, a.s. and the Customer Centres of Wüstenrot poisťovňa, a.s. As at 31 December 2021, this network comprised 24 Wüstenrot centres across Slovakia, with 1 director and 2 deputy directors, and 89 building savings advisors in total. 60 partners participated in the mediation of building savings contracts.

1.3 Structure of the Bank's shareholders

The structure of the Bank's shareholders as at 31 December 2021 and 31 December 2020:

SHAREHOLDER	Registered office	Share in %	
		2021	2020
Bausparkasse Wüstenrot AG	Alpenstraße 70, 5020 Salzburg, Rakúsko	100	100
Total		100	100

The amount of voting rights of the Bank's shareholders corresponds to the number of their shares, which is derived from the amount of their ownership interest in the Bank's share capital (Bausparkasse Wüstenrot AG: 1,000 votes).

The Bank is included in the consolidated financial statements of its parent company, Bausparkasse Wüstenrot AG, seated at Alpenstrasse 70, 5020 Salzburg, Austria. The consolidated financial statements are available at the parent company's registered office.

Bausparkasse Wüstenrot AG is included in the consolidated financial statements of the parent company Wüstenrot Wohnungswirtschaft reg.Genossenschaft mbH, Alpenstrasse 70, Salzburg, Austria, that is the ultimate parent company and the ultimate controlling party.

1.4 The Bank's bodies

The Bank's statutory and supervisory bodies in 2021 and 2020:

Board of Directors	Supervisory board
Chairman: Ing. Marian Hrotka, PhD. (since 23 March 2021) Mag. Christian Sollinger, CIIA (up to 23 March 2021)	Predseda: Mag. Gerald Hasler (since 20 June 2021) Prof. Dr. Andreas GRÜNBICHLER (up to 20 June 2021)
Členovia: Dr. Klaus Wöhry Mag. Christian Sollinger, CIIA (since 23 March 2021) Ing. Marian Hrotka, PhD. (up to 23 March 2021)	Podpredseda: Dr. Susanne Riess Členovia: Mag. Christine Sumper-Billinger (since 25 November 2021) Mag. Gerald Hasler (up to 20 June 2021)

The Bank's proxies are: Ing. Vladimír Gal, JUDr. Katarína Novotná, and Gabriela Repáková.

Two members of the Board of Directors or one member of the Board of Directors together with a proxy act jointly on behalf of the Bank.

1.5 Number of employees

	31 December 2021	31 December 2020
Total number of employees, of which:	223	240
- Management	4	4
	2021	2020
Average number of employees per year*	88	101

* The average number of staff has been calculated on the FTE (full-time equivalent) basis. The remaining working hours represent work for Wüstenrot poisťovňa, a.s.

1.6 Strategic direction

In 2021, the Bank announced its intention to leave the market and stopped selling new building savings contracts and providing new interim loans.

As a result of the implementation of this strategy, the volume of receivables from, and payables to, clients decreased in 2021. The gradual reduction in the client portfolio will continue to result in a decrease in interest and fee income in the future years and a decrease in the Bank's total assets. On the other hand, the decline in the volume of assets (especially the loan portfolio) will result in a reduction in the capital requirement. In the future, in addition to current costs, there will be costs associated with adjustments to accounting policies (depreciation periods, adjustments to expected credit loss (hereafter "ECL") and effective interest rate (hereafter "EIR") calculations, provisioning, etc.).

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereafter "IFRS") as adopted by the European Union (hereafter "EU").

The Bank keeps its accounting books in accordance with the Accounting Act in accordance with IFRS as adopted by the EU. According to § 17a Section 1 of the Accounting Act, the Bank prepares its financial statements in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, as amended.

The General Meeting approved the Bank's separate financial statements for 2020 on 21 June 2021.

2.2 Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention, except for financial assets and liabilities initially stated at fair value and FVOCI debt instruments subsequently measured at fair value.

2.3 Going concern

The financial statements have been prepared on the accrual basis, according to which transactions and other events are accounted for when incurred and in the financial statements are recognized in the period to which they relate, provided that the Bank is a going concern. The COVID-19 pandemic and the strategy changes described in Section 1.6 of the Notes did not have a significant impact on the Bank's assumption to continue its operations on the going concern basis.

2.4 Functional and presentation currency

The financial statements are presented in euros, which is the Bank's functional currency. Financial information is expressed in thousands and is mathematically rounded, except when stated otherwise.

2.5 Use of estimates and judgements

The preparation of financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated on an ongoing basis. Adjustments to accounting estimates are recognized in the period in which the estimate is revised and in all other periods affected.

Information about significant areas of uncertainty in estimates and about significant judgements in the accounting policies and methods applied with the most significant effect on the amounts shown in the financial statements is described in Notes 3 and 4.

The accounting policies and methods set out below have been applied consistently to all periods presented in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Transaction date

The day of an accounting event is the date on which the transaction is carried out - in particular, the day on which: ready money is paid or received, funds in foreign currency are purchased or sold, a payment from the client's account is made, a payment is credited to the client's account, a receivable or liability arises, changes or ceases to exist.

Trades in securities or deposits on the money market are transferred from the off-balance sheet to the balance sheet on the settlement day.

3.2 Cash and cash equivalents

For the purposes of preparing the statement of cash flows, cash and cash equivalents include:

- cash on hand in euros and foreign currencies;
- a surplus on the NBS mandatory minimum reserve account;
- loans provided to the NBS in repurchase transactions with a contractual maturity of up to 3 months;
- current account balances at other banks; and
- term deposits with other banks with a maturity of up to 3 months.

3.3 Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into euros at the exchange rate specified in the ECB's exchange rate ruling at the date of the accounting event. At the balance sheet date, they are measured at the exchange rate effective at that date. Gains and losses arising from the revaluation to euro are accounted for as foreign exchange gains or losses to the credit or debit side of profit/(loss).

3.4 Cash on hand, accounts with the NBS, and receivables from banks

Cash on hand is stated at amortized cost. Mandatory minimum reserves with the NBS are stated at amortized cost, including interest income achieved. Term deposits are initially stated at fair value, which includes transaction costs directly attributable to the transaction. Subsequently, these items are measured at amortized cost. Accrued interest is also part of their valuation. Mandatory minimum reserves are required deposits with a limited drawdown.

3.5 Financial assets and financial liabilities

Measurement methods

Amortized cost and effective interest rate

Amortized cost is the amount at which a financial asset or financial liability is measured on initial recognition, less principal payments and increased or decreased by cumulative amortization of any difference between the initial value and maturity using the effective interest method, in the event of a financial asset adjusted for a possible impairment loss. The effective interest rate is the rate that discounts estimated future cash payments or receipts during the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortized cost before any impairment loss) or the amortized cost of the financial liability. The calculation does not take into account expected credit losses and includes transaction costs, premiums or discounts, fees, and points paid or received that are an integral part of the effective interest rate, such as fees incurred when a financial asset arises.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) purchased or originated credit-impaired financial assets (POCIs) for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset;
- (b) financial assets that are not POCIs but have subsequently become impaired (or grade 3), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. less a credit loss allowance due to ECL).

Initial recognition and measurement

An entity only recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. Current purchase or sale of financial assets is shown in the off-balance sheet on the trade date, i.e. on the day the Bank undertakes to buy or sell an asset.

Upon initial recognition, the Bank measures a financial asset or financial liability at its fair value, increased or decreased (if the financial asset or financial liability is not measured at fair value through profit or loss) at transaction costs that are incremental and directly attributable to the acquisition or issuance of a financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are recognized in profit or loss immediately after initial recognition. A credit loss allowance set up due to ECL is recognized for financial assets stated at amortized cost, and investments in debt instruments are measured at FVOCI, as described in Section 4.1 of the Notes.

If the fair value of financial assets and financial liabilities at initial recognition differs from the transaction price, the entity recognizes the difference as follows:

- (a) when fair value is demonstrated at a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or is the result of a valuation technique that only uses observable market data, the Bank recognizes the difference as a gain or loss;
- (b) in all other cases, the difference is accrued and the timing of the recognition of accrued profit or loss on day 1 is determined individually. The difference is either amortized over the life of the financial instrument, accrued until the fair value of the instrument can be determined using observable market inputs, or realized through settlement.

(i) Classification and subsequent measurement

The Bank applies IFRS 9 and classifies its financial assets in the following measurement categories:

- assets measured at fair value through other comprehensive income (FVOCI), or
- assets measured at amortized cost.

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are instruments such as loans, government or corporate bonds. The classification and subsequent valuation of debt instruments depends on:

- (i) the Bank's business model for managing the asset, and
- (ii) cash flow characteristics of the asset (SPPI test).

Based on these factors, the Bank classifies its debt instruments into one of the following 3 measurement categories:

- **Amortized cost:** Assets that are held for the purpose of collecting contractual cash flows and these cash flows only represent principal and interest payments (SPPI), and that are not intended to be measured at FVTPL, are stated at amortized cost. The carrying amount of these assets is adjusted by any credit loss allowance for expected credit losses, recognized and measured as described in Section 4.1 of the Notes. Interest income from these financial assets is included in line 'Interest income calculated using the effective interest rate' of the income statement, as described in Section 6.17 of the Notes.
- **Fair value through other comprehensive income (FVOCI):** Financial assets held for the purpose of collecting contractual cash flows with the possibility of their eventual sale for profit or settlement of capital requirements or liquidity ('Hold and sell' business model), where the cash flows from these assets only represent principal and interest payments (SPPI) and which are not intended for measurement at FVPL, are stated at fair value through other comprehensive income. Movements in the carrying amount are recognized in other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument, which are recognized in profit or loss. When a financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net gain on the sale of securities'. Interest income from these financial assets is included in 'Interest income using the effective interest method'.
- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for measurement at amortized cost or FVOCI are stated at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and that is not part of a hedging relationship is recognized in profit or loss and presented in the income statement under 'Net trading income' in the period when originated, unless it arises from debt instruments that have not been designated at fair value or are not held for trading. In these cases, they are presented separately under 'Net return on investment'. Interest income on these financial assets is included in 'Interest income'.
- **Business model:** The business model reflects how the Bank manages assets to generate cash flows, i.e. whether the Bank's objective is only to collect contractual cash flows from these assets or whether it also intends to collect cash flows from their sale. If neither of these applies (e.g. when financial assets are held for trading purposes), the financial assets are classified as part of 'another' business model and measured at FVTPL. Factors that the Bank takes into account in determining the business model for its assets include past experience of how cash flows from such assets have been collected, how the performance of the asset is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated. For example, the Bank's business model for mortgage loans is to hold them with the intention of collecting contractual cash flows. Another example is the portfolio of liquid assets that the Bank holds as part of liquidity management and generally classifies it within the business model 'hold with the intention of collecting contractual cash flows and cash flows from potential sales'. Securities held for trading are held primarily for the purpose of selling them in the short term or are part of a portfolio of financial instruments that are jointly managed and for which there is evidence of a recent real short-term profitability scheme. These securities are included in a 'different' business model and are measured at FVTPL.
- **SPPI:** The Bank assesses whether the cash flows from financial instruments only represent principal and interest payments (SPPI test). In making this assessment, the Bank considers whether the contractual cash flows are in accordance with the underlying agreement, i.e. whether the interest only includes remuneration for the time value of money, credit risk, other underlying lending risks and a profit margin that is consistent with the underlying agree-

ment. When contractual terms introduce exposure or risk that does not comply with the underlying agreement, the related financial asset is classified and measured at FVTPL.

- Financial assets with embedded derivatives are considered as a whole when determining whether their cash flows only represent payments of principal and interest.
- The Bank reclassifies debt investments when and only when its business model for managing these assets changes. Reclassification takes place from the beginning of the first accounting period after the change. Such changes are expected to be infrequent and have not occurred during the current accounting period.

(ii) Impairment

On the basis of forecasts, the Bank assesses ECL associated with its debt instruments measured at amortized cost and at FVOCI and the risks arising from loan commitments. The Bank recognizes a credit loss allowance for such losses at each balance sheet date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount, which is determined by evaluating the full range of possible outcomes;
- the time value of money; and
- adequate and verifiable information about past events, current conditions, and forecasts of future economic conditions that is available at the reporting date without incurring disproportionate costs or effort to obtain them.

For further details on how credit loss allowance for expected credit losses are determined, see Section 4.1 of the Notes.

(iii) Loan modification

Exceptionally, the Bank renegotiates or otherwise modifies contractual cash flows from the loans it has provided to its clients. When this happens, it assesses whether or not the new conditions differ significantly from the original ones. When doing this, the Bank takes into account, inter alia, the following factors:

- if the borrower has financial difficulties, whether the modification significantly reduces the contractual cash flows to amounts that the borrower is likely to be able to pay;
- whether the duration of the loan has been significantly extended if the borrower is not in financial difficulties;
- if the new terms are significantly different, the Bank derecognizes the original financial asset and recognizes the 'new' asset at fair value and calculates a new effective interest rate for it. The renegotiation date is subsequently considered to be the date of initial recognition for the purpose of calculating the provision and to determine whether there has been a significant increase in credit risk. The Bank does not record any such loans due to the procedures applied when approving and recovering loans.
- If the new terms do not differ materially from the old ones, renegotiation or modification of the loan terms will not result in derecognition. The Bank recalculates the gross carrying amount based on the revised cash flows from the financial asset and recognizes a gain or loss on the modification in profit or loss. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate (or the credit-adjusted effective interest rate for purchased or incurred credit-impaired financial assets).
- Modified loans are monitored in the Bank's systems. The effects of modifications to financial assets on the calculation of expected credit losses are described in Section 5.1. of the Notes.

(iv) Derecognition (termination of recognition) other than by modification

- A financial asset or part thereof is only derecognized when the contractual rights to receive cash flows from it have expired or have been transferred and the Bank has either (i) transferred substantially all the risks and rewards of ownership of the financial asset; or (ii) will not transfer or retain them, or retain control over these financial assets.
- The Bank enters into transactions in which it retains contractual rights to receive cash flows from financial assets, but assumes a contractual obligation to pay these cash flows to other entities and transfers substantially all risks and rewards. These transactions are accounted for as 'pass-through' transfers that result in derecognition if the Bank:

- (i) is not required to make payments until it has collected equivalent amounts from the financial assets;
- (iii) must not sell or pledge the financial asset; and
- (iii) is not required to pass on the funds it collects from the financial assets to final beneficiaries without significant delay.

- Collaterals (shares and bonds) issued by the Bank under standard repurchase agreements and transactions involving lending and borrowing of securities are not derecognized, as the Bank retains substantially all rights and rewards based on a predetermined redemption price and thus the derecognition criteria are not met. This also applies to certain hedging transactions in which the Bank retains a subordinated residual interest.

3.6 Financial guarantee contracts and loan commitments

Loan commitments provided by the Bank are measured at the amount of compensation in the event of a loss (calculated as set out in Section 5.1.1 of the Notes). The Bank did not make any promises to provide loans at an interest rate below the market value, or with the possibility of settling the net difference, or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, loss compensation is recognized as a provision. However, for contracts that include both a loan component and an undrawn commitment component where the Bank is unable to distinguish expected credit losses from the undrawn component from losses attributable to the loan component, the expected credit losses from the undrawn component are reported together with compensation due to credit loss. If the combined credit losses exceed the gross carrying amount of the loan, they are recognized as a provision.

3.7 Fair value measurement

IFRS 13, Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in the absence of a principal market, in the most advantageous market for the asset or liability that the Bank is able to access at the measurement date. The fair value of the liability reflects the risk of default.

Determining the fair value of securities:

The fair value of a security for which there is an active market and whose market value can be reliably estimated is determined as the price at which the security was last traded on a regulated market on the day of its valuation. If this price cannot be determined, the price at which the relevant security was last traded before the day of its valuation is used, if this price is not older than 30 days. If the market price of the security is older than 30 days, the fair value is determined using valuation models, the yield curve of Slovak government securities with similar characteristics published in the Bloomberg application the day after the end of the month before the start of trading, or discounted cash flows.

Valuation techniques

The objective of using valuation techniques is to estimate, under current market conditions, the price of an asset or liability between market participants at the valuation date.

The Bank uses a market approach to the valuation of securities and receivables from banks. The Bank uses the cash flow discounting method when measuring receivables from, and payables to, clients.

Fair value hierarchy

To increase the consistency and comparability of fair value measurements and the related disclosures, IFRS 13 introduces a fair value hierarchy that categorizes the inputs of the valuation techniques used for fair value measurement to three levels. The values of financial instruments measured at fair value according to specified levels are set out in Sections 4.3 and 6.30 of the Notes.

This hierarchy has the following three levels:

- Level 1: measurement at quoted (unadjusted) prices determined in active markets for identical assets or liabilities that the Bank is able to access at the measurement date;
- Level 2: measurement using a model whose significant input parameters are directly ascertainable from the financial markets, or valuation at a price quoted in a market that is not active;
- Level 3: valuation using a model which has some significant input parameters not directly observable in financial markets, subjective input parameters.

3.8 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and their net amount is recognized in the statement of financial position when there is a legally enforceable right to set off the reported amounts and there is an intention to settle transactions based on their net difference or to realize the assets at the same time as the liability is settled.

Financial assets and liabilities were not offset in the financial years ended 31 December 2021 and 31 December 2020.

3.9 Property, plant and equipment

Items of property, plant and equipment are stated at cost, and the amount of their wear and tear is expressed indirectly via accumulated depreciation. The cost includes the acquisition price and the related acquisition costs, such as transportation costs, postage, customs duty, commissions, interest on an investment loan, posted from the beginning of the acquisition until the day on which the respective asset is put into use.

Subsequent costs are either included in the asset's carrying amount or recognized as a separate asset when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost can be reliably measured. Repair and maintenance costs are expensed to the income statement when incurred.

Items of property, plant and equipment are depreciated on a monthly basis, starting with the month in which the asset was made available for use in accordance with the approved depreciation plan. Each item is depreciated on a straight-line basis using the time depreciation method. The monthly depreciation charge is determined as the ratio of the depreciable amount and the asset's estimated useful life. The depreciable amount is the cost less the amount at which an asset could be disposed of at present. The sales value takes into account the cost to sell the asset.

The depreciation plan, from which book depreciation rates are derived, is determined on the basis of the estimated economic useful life of the asset as follows:

Type of asset	Depreciation period (years)
Buildings, structures, minor constructions	40
Machinery and equipment	4, 6
Hardware	4
Office equipment	6, 12
Furniture	6
Means of transport	4

The Bank regularly reassesses estimated useful lives and depreciation methods at the end of each accounting period.

In the event of circumstances indicating a decrease in an asset's carrying amount, the Bank estimates its recoverable amount. If the carrying amount of an asset exceeds its estimated recoverable amount, this is considered to be temporary impairment, which is adjusted by creation of a credit loss allowance that lowers the asset's carrying amount to its recoverable amount. The realizable value is the higher of fair value less costs to sell and value in use.

3.10 Intangible assets

Intangible assets are stated at cost, while the amount of their wear and tear is expressed indirectly via accumulated amortization. The cost includes the acquisition price and the related acquisition costs, such as transportation costs, postage, customs duty, commissions, interest on an investment loan, posted from the beginning of the acquisition until the day on which the respective asset is put into use.

Subsequent costs are either included in the asset's carrying amount or recognized as a separate asset when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost can be reliably measured. Repair and maintenance costs are expensed to the income statement when incurred.

Intangible assets are amortized on a monthly basis, starting in the month in which the asset was made available for use in accordance with the approved amortization plan. Each asset is amortized on a straight-line basis using the time depreciation method, with a monthly depreciation charge determined as the ratio of the depreciable amount and the asset's estimated useful life. The depreciable amount is the cost less the amount at which an asset could be disposed of at present. The sales value takes into account the cost to sell the asset.

The amortization plan, from which the book amortization rates are derived, is determined on the basis of the estimated economic useful life of the asset as follows:

Type of asset	Amortization period (years)
Software	4, 10

The Bank regularly reassesses estimated useful lives and amortization methods at the end of each accounting period.

In the event of circumstances indicating a decrease in an asset's carrying amount, the Bank estimates its recoverable amount. If the carrying amount of an asset exceeds its estimated recoverable amount, this is considered to be temporary impairment, which is adjusted by creation of a credit loss allowance that lowers the asset's carrying amount to its recoverable amount. The realizable value is the higher of fair value less costs to sell and value in use.

3.11 Investment property

Investment property is held for the purpose of earning rental income. Based on a lease agreement concluded between the Bank and Wüstenrot poisťovňa, a.s., the Bank leases part of its premises in buildings in Banská Bystrica, Košice, Nitra, and part of the headquarters building in Bratislava. The real estate on Vajnorská street in Bratislava is leased. If part of a property is leased to another entity and the remaining part is used by the Bank, the value of the building is divided between investment property and property, plant and equipment proportionally to the area leased and used (in m²).

Investment property is measured at cost and the amount of its wear and tear is expressed via accumulated depreciation. Depreciation charges for investment property are calculated as for depreciation charges for property, plant and equipment (buildings).

For disclosure purposes, the fair value of investment property is determined as the market price based on an expert opinion prepared by a qualified expert every three years. Management assesses the market value in years when an expert opinion has not been prepared based on available real estate market prices.

The acquisition cost, net book value, and fair value of investment property are set out in Section 6.5 of the Notes.

3.12 Assets held-for-sale

If the value of a non-current asset (or a disposal group) is expected to be realized primarily through its sale and not through its use, this asset or disposal group is classified as held for sale. This condition is only considered to be met when the sale is highly probable, and the asset is available for immediate sale in its current state. The Company must seek to realize a sale that should be expected to meet the criteria for recognizing the completed sale within one year of the date of such classification.

Immediately before the asset is classified as held for sale, it (and all assets and liabilities in the disposal group) must be remeasured in accordance with applicable International Financial Reporting Standards as adopted by the EU. Subsequently, on initial recognition of assets held for sale, the asset held for sale and the disposal group are stated at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on a disposal group classified as held for sale are initially allocated to goodwill and then pro rata to other assets and liabilities, other than inventories, financial assets, deferred tax asset, and investment property, which continue to be stated in accordance with the Company's accounting policies.

Impairment losses on assets initially classified as held for sale are recognized in profit or loss even if a revaluation reserve has been created. The same applies to gains and losses on subsequent measurement. Reported gains may not exceed cumulative impairment losses.

Property, plant and equipment and intangible assets classified as held for sale are not depreciated/amortized.

If an asset is included in a disposal group and subsequently it is found that its value is realized primarily through use and not through sale, the asset is rebooked and for property, plant and equipment and intangible assets the depreciation/amortization charge is recognized in the period in which the decision to change the use of the property was made.

3.13 Leases

The Bank is a lessor

Rental income from operating leases is recognized as revenue on a straight-line basis in the income statement over the lease term and is included in 'Other operating income'.

Leases in which significant risks and rewards of ownership remain with the lessor are classified as operating leases. Payments made or received under operating leases (less discounts from the lessor) are recognized on a straight-line basis in the income statement over the lease term.

The Bank is a lessee

The majority of active contracts (21 of 24 leased premises with a total annual rent of EUR 194 thousand without VAT as at 31 December 2021) in which the Bank acts as a lessee fall under the IFRS 16 exception for lessees, which relates to leases with a lease term of up to 12 months. The Bank does not consider the impact of other active contracts that do not fall under this exception to be significant.

Operating lease rents are recognized as an expense on a straight-line basis over the lease term and are recognized in the income statement under 'General operating expenses'.

3.14 Liabilities to clients

Liabilities to clients are initially stated at fair value less transaction costs that are directly attributable to the acquisition of a financial liability (commission for concluding a contract).

These liabilities are subsequently measured at amortized cost using the effective interest method. In addition to transaction costs, the accrual during the savings period also includes a fee for concluding a building savings contract.

3.15 Provisions

Provisions are liabilities of uncertain timing or amount and are measured at the present value of expected expenditures. All risks and uncertainties which necessarily result from many related events and circumstances are taken into account when estimating a provision.

A provision must be created if the following criteria are met:

- an entity has a present obligation (legal or constructive) 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
- a reliable estimate can be made of the amount of the obligation.

3.16 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (hereafter the "reporting entity").

A person or a close member of such a person is related to a reporting entity if that person:

- has control or joint control of the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

An entity is related to a reporting entity if any of the following conditions apply:

- the entity and the reporting entity are members of the same group (i.e. all parent companies, subsidiaries, and fellow subsidiaries are related to each other);
- an entity is an associate or joint venture of another entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- both entities are joint ventures of the same third party;
- an entity is a joint venture of a third entity and the other entity is an associate of that third party;
- an entity has a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
- the entity is controlled or jointly controlled by a person identified in Section 6.28 of the Notes.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- such a person's children, spouse or domestic partner;
- children of such a person's spouse or domestic partner; and
- dependants of such a person, or such a person's spouse or domestic partner.

Key management personnel are persons with authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors (whether executive or otherwise) of such an entity.

When considering each possible related party relationship, the Bank considers the substance of the relationship and not merely the legal form.

In the ordinary course of business, the Bank enters into a number of transactions with related parties (Section 6.28 of the Notes).

3.17 Employee benefits

Short-term employee benefits

Short-term liabilities to employees that arise with a temporal and substantive connection with the performance of the Bank's staff are reported under the income statement item 'Personnel cost'. Short-term payables to employees include wages and salaries, holiday pay, etc.

Post-employment benefits

The Bank categorizes employee benefits associated with employee retirement benefits as defined contribution plans.

For defined contribution plans, the Company pays fixed contributions to an independent entity, which are posted to the income statement under the item 'Personnel cost'. This is compulsory social insurance paid by the Company to the Social Insurance Agency or a private fund on the basis of the relevant legal regulations. The Company has no legal or other (constructive) obligation to pay additional contributions if the relevant funds do not have sufficient assets to pay benefits to all employees for their time in the current and prior periods.

3.18 Special levy of financial institutions

According to Act No. 384/2011 Coll. on a Special Levy of Selected Financial Institutions and on Amendments to Certain Acts, as amended, the Bank does not have to remit the special levy of selected financial institutions (0.00% since 1 July 2020, 0.40% up to 30 June 2020, and 0.20% up to 31 December 2019) of the amount of the Bank's liabilities, less equity and subordinated debts. The Bank was obliged to pay the levy in four equal quarterly instalments.

Charges and fees, such as taxes (other than current income tax or regulatory fees), which are based on information on when an obligation to pay arises are recognized as a liability at the time the obligating event giving rise to the obligation to pay the levy (as identified by law) activates the obligation to pay such a levy. A levy paid before the obligating event occurs is accounted for as an advance payment.

3.19 Equity

Dividends are recognized as a decrease in equity when approved by the General Meeting. Dividends approved by the General Meeting after the reporting date are disclosed in the Notes to the financial statements.

The Bank has set up a legal reserve fund from net profit up to 20% of the share capital. The Bank may only use this reserve fund to cover losses. A mandatory appropriation to the legal reserve fund is not necessary, as the fund reached its maximum statutory limit in 2015.

3.20 Accounting policies for interest income and interest expense, methods of reporting income from impaired assets, including interest

- The Bank accounts for interest income and interest expense related to assets and liabilities together with these assets and liabilities.
- Interest income from loans is calculated using the interest rate at which future cash flows were discounted for the purpose of determining the amount of the credit loss allowance.
- The Bank accounts for interest income from, and interest expense of, financial assets measured at amortized cost and FVOCI using the effective interest method. The discount, i.e. the gradually achieved difference between the lower acquisition cost and the higher nominal value of the bond, and the gradually achieved interest on the coupon and the premium, i.e. the gradually achieved difference between the higher acquisition cost and the lower nominal value of the bond, are accounted for as interest income/expense. During the period in which government bonds are held, the Bank accounts for interest income from the coupon in the gross amount.
- The Bank accounts for interest income from NBS treasury bills calculated using the effective interest method.

The fee for concluding a contract and commissions paid or received for acts related to the acquisition or origination of a financial asset or liability are part of the effective interest rate of the financial instrument.

3.21 Accounting for fees and commissions

Loan processing fees received and loan intermediation commissions paid to sales representatives are included both in the valuation of loans and the calculation of the effective interest rate (Section 3.19 of the Notes) and are shown under Receivables from clients.

Received fees for concluding a building savings contract and the related commissions paid to sales representatives are included both in the valuation of client deposits and the calculation of the effective interest rate and are shown under Liabilities to clients.

All other fees related to building savings contracts, building society loans, and interim loans (e.g. fee for increasing the target amount of savings) represent revenue at the time of providing the service and are not included in the valuation of building society saving, specifically the valuation of the building society loan and the interim loan.

Revenue recognised in accordance with IFRS 15:

Revenues related to transactions (account cancellation and other) are recognized at the transaction date.

Revenues from account-related services and service fees (account administration fee, bank account statement fee, etc.) are recognized during the period in which services are provided.

Nature and timing of the settlement of standard liabilities, including important payment terms:

Fees for services related to transactions on client accounts are charged to the client on the transaction date.

Account administration fees and service fees are deducted from client accounts every month. The Bank reviews the amount of fees once a year.

3.22 Corporate income tax

Current and deferred income tax assets / liabilities are shown separately from other assets and liabilities.

The corporate tax stated in the statement of profit or loss for the reporting period includes tax payable for the accounting period and deferred tax. The tax base for the current tax is calculated from the IFRS profit/(loss) for the current period by adding items that increase, and deducting items that decrease, the profit / (loss).

Deferred taxes (deferred tax asset and deferred tax liability) relate to temporary differences between the carrying amounts of assets and liabilities presented in the statement of financial position and their tax base. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax is calculated using the tax rate that is expected to be effective at the day on which the tax asset will be realized or the tax liability settled and has been enacted or substantively enacted by the balance sheet date.

3.23 Embedded derivatives

Interest bonus (Section 6.9 of the Notes) and early termination fees have the characteristics of an embedded derivative, but the economic characteristics and risks of embedded derivatives are closely related to the economic characteristics and risks of the underlying financial instrument. Therefore, embedded derivatives are not accounted for separately from the underlying financial instrument.

3.24 Issued standards, interpretations, and amendments to standards which the Company applied for the first time in 2021

Subsequent amendments to the existing standards and interpretations are not expected to have a material impact on the Bank's financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases,

this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.

Interest Rate Benchmark (IBOR) Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognized. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments to IFRS 4 addressed the temporary accounting consequences of the different effective dates of IFRS 9 and the forthcoming IFRS 17. The amendments to IFRS 4 extended the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17. The fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has been deferred to annual reporting periods beginning on or after 1 January 2023.

3.25 Issued standards, interpretations, and amendments to existing standards that are effective after 1 January 2022 and which the Company has not applied early

At the date on which the financial statements were approved, the following standards have been issued but have not yet become effective or have not yet been adopted in the EU. The Bank is currently assessing their impact on its financial statements and expects some impact on disclosures, financial position, or performance at the time of their future application. The Bank plans to apply these standards from the effective date or from the date of their adoption in the EU.

IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

IFRS 17, Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a Company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Proceeds before Intended Use, Onerous contracts – Cost of Fulfilling a Contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognized in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognized some liabilities in a business combination that it would not recognize under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognize such liabilities and recognize a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognize contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- **Effective date:** The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- **Expected recovery of insurance acquisition cash flows:** An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognize those costs as an asset until the entity recognizes the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- **Contractual service margin attributable to investment services:** Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- **Reinsurance contracts held – recovery of losses:** When an entity recognizes a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognize a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognized on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognized before or at the same time as the loss is recognized on the underlying insurance contracts.
- **Other amendments:** Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Classification of Liabilities as Current or Non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy

information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Definition of Accounting Estimates – Amendments to IAS 8 (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognize assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognized. The amendments clarify that the exemption does not apply and that entities are required to recognize deferred tax on such transactions. The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Transition Option to Insurers Applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognized in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

4 USE OF ESTIMATES AND JUDGEMENTS

4.1 Measurement of credit loss allowance for loans due to expected credit losses

ECL valuation. ECL calculation and valuation requires the application of significant judgement and the use of methodologies, models, and variables. Details of the ECL valuation methodology used by the Bank are described in Note 5. The following components of ECL calculation have a significant impact on the amount of the credit loss allowance for expected credit losses ('ECL'): definition of default, SICR, PD, EAD, LGD (for definitions of these acronyms, see Section 5.1.1 of the Notes), macro-models, and the analysis of scenarios for impaired loans. The Bank regularly reviews and validates the models and model inputs to reduce any differences between estimates of expected credit losses and current credit loss experience. The main source of uncertainty for the models is expected economic development, which the Bank seeks to model in its scenarios. For more information about sources of uncertainty, see Note 5.

A 5% and 10% increase in the current credit loss experience compared to the ECL estimates calculated at 31 December 2021 would lead to an increase in ECL as follows:

in thousands of EUR	Increase in ECL
5% increase in LGD	192
5% increase in PD	63
Total increase in ECL if LGD and PD were changed by 5%	258

in thousands of EUR	Increase in ECL
10% increase in LGD	384
10% increase in PD	125
Total increase in ECL if LGD and PD were changed by 10%	522

A 5% and 10% increase in the current credit loss experience compared to the ECL estimates calculated at 31 December 2020 would lead to an increase in ECL:

in thousands of EUR	Increase in ECL
5% increase in LGD	480
5% increase in PD	129
Total increase in ECL if LGD and PD were changed by 5%	616

in thousands of EUR	Increase in ECL
10% increase in LGD	961
10% increase in PD	258
Total increase in ECL if LGD and PD were changed by 10%	1,244

SICR (Significant Increase in Credit Risk). To determine whether there has been a significant increase in credit risk, the Bank compares default risk (inability to repay debt over the expected life of a financial instrument) at the balance sheet date with default risk at the date of initial recognition. IFRS 9 requires an assessment of the relative increases in credit risk, rather than identifying the specific stage of credit risk at the reporting date. In making this assessment, the Bank takes into account a range of indicators, including behavioural indicators based on historical information and reasonable and verifiable forward-looking information that can be obtained without undue expense or effort. The most important judgements include the identification of credit risk growth indicators before default and incorporation of appropriate forward-looking information into the assessment, either at the individual instrument level or at the portfolio level. The Bank's definition of SICR is stated in Note 5.

When determining the appropriate valuation category for debt financial instruments, the Bank applies two assessments: the assessment of the business model for managing financial assets and implementation of the SPPI test based on the characteristics of contractual cash flows at initial recognition.

Determination of the business model:

The business model is assessed at a certain level of aggregation and the Bank used its judgement to determine the level at which the business model condition is applied.

When assessing sales transactions, the Bank takes into account their frequency, timing and value in prior periods, the reasons for the sales, and expectations regarding future sales activities. Sales transactions aimed at minimizing potential losses due to increased credit risk are considered consistent with the 'hold to collect' (**HtC**) business model. Other pre-maturity sales that do not relate to credit risk management activities may also be considered consistent with this business model, provided they do not occur frequently and are of insignificant value, individually or in total. The Bank assesses the significance of sales transactions by comparing the value of realized sales with the value of the portfolio falling within the assessment of the business model during the average life of the given portfolio. The sale of financial assets that are only expected to be sold in the event of a stress scenario or in response to an isolated event over which the Bank has no control, which is non-recurring, and which the Bank could not anticipate is considered marginal and does not affect the main purpose of the business model – the classification of the relevant financial assets.

In the event of a 'hold to collect and sell' (**HtCS**) business model, the sale of financial assets is an integral part of achieving the business model objective which is, for example, managing liquidity needs, achieving a specific interest income, or reconciling the duration of financial assets with the duration of the liabilities financed by such assets.

The assessment of the SPPI criterion made in the initial recognition of financial assets requires the use of significant estimates in quantitative testing and requires considerable judgement in deciding when to apply a quantitative test, which scenarios are possible and should be considered, and in interpreting the results of quantitative testing (i.e. determining what is a significant difference in cash flows). These are the most important contractual features that are the subject of a qualitative or quantitative assessment of the SPPI criteria:

- i) Modified time value of money: In some cases, the component related to the time value of money may be modified so that it does not only provide remuneration for the passage of time, e.g. when a contractual interest rate is renewed regularly, but the frequency of such a renewal does not correspond to the interest rate tenor. When assessing financial assets with a modified time value of money, the Bank compares the undiscounted contractual cash flows arising from the assessed asset with the cash flows from the "reference" financial instrument (cash flows that would have been generated if the time value of money had not been modified). The effect of the modified time value of money is taken into account in each reporting period and cumulatively over the total life of the financial instrument. When performing a benchmark test, the Bank considers all scenarios that could reasonably arise. If the cash flows from the two financial instruments differ significantly, the SPPI test has not been passed.

- ii) Terms and conditions that change the timing or amount of contractual cash flows: For such financial assets, the Bank compares the contractual cash flows that may arise before and after the change to assess whether both sets of cash flows meet the SPPI criterion. If the cash flows before and after the change differ significantly, the financial asset does not meet the SPPI criterion. In some cases, a qualitative assessment may be sufficient.

Examples of conditions that would pass the SPPI test:

- (a) If the terms of the contract include the possibility of early repayment, the SPPI criterion is met when the amount repaid early essentially represents the contractual nominal value and the accrued contractual interest plus reasonable compensation for early termination.
- (b) For financial assets with an early repayment option acquired at a discount to the contractual nominal value, the SPPI criterion is met when the fair value of the early repayment element is immaterial at initial recognition.
- (c) If the contractual terms and conditions include initial interest-free or low-interest periods, the SPPI criterion is met when these terms are offered to clients as incentives and only lead to a reduction in the overall margin that the Bank obtains from the relevant loan products,
- (d) If the contractual conditions allow the Bank to freely adjust interest rates in response to certain macroeconomic or regulatory changes or even regardless of the market situation, the SPPI criterion is met when the Bank concludes that competition in the banking sector and the borrower's practical ability to refinance loans would prevent it from setting interest rates above the market level. Clients may refinance their loans on market terms if the Bank adjusts interest rates.

Depreciation policy. Financial assets are written off, in whole or in part, when the Bank has exhausted all practical possibilities to recover funds and concludes that it cannot reasonably be expected that it will ever be successful in this. Identifying cash flows for which there is no reasonable expectation they will be recoverable requires judgement. Indicators suggesting that it is unreasonable to expect a resumption of cash flows are, in particular, the number of days past due, the status of the debtor (e.g. liquidation, bankruptcy proceedings), the fair value of a collateral and whether execution activities are ongoing.

4.2 Interest bonus

The Bank reports other liabilities to clients from the interest bonus. The interest bonus is paid to a client in accordance with the building savings contract after meeting the conditions for saving with a building society and other specific terms and conditions.

The Bank performs regular analyses and estimates to determine, as accurately as possible, the probability, timing, and amounts relating to the likely outflow of resources in each case, as described in Section 6.9 of the Notes. If the amount of liabilities as an estimate of the outflow of resources differs from reality, the difference is reflected in the profit or loss of the relevant accounting period in which the difference was identified.

Based on historical behavioural experience, the Bank estimates the number of clients who meet the required conditions and to whom an interest bonus will be paid. The total amount of the interest bonus is built up over the term of the building savings contract using the effective interest method. Every year, the Bank reassesses the behaviour of its clients and the amount of the interest bonus liability. The amount of the interest bonus liability is adjusted if a change in the client's behaviour has been identified. The Bank settles the interest bonus liability in the year in which the client meets the required criteria.

In previous years, the Bank created the interest bonus liability (Flexibil bonus) for savings contracts. Contracts containing Flexibil bonus were provided during the years 2001 – 2007. In 2013, after the six years period, the share of building savings contracts in which clients met the conditions for receiving the bonus amounted to 29.4%. This interest bonus is credited to the contract upon its termination. The interest bonus is charged to the contract automatically. The Bank regularly checks whether the balance of the provision (liability) corresponds to the amount of pre-assigned interest bonuses. The Bank has concluded that this provision was sufficient as at 31 December 2021 and is gradually used (the same applies for 31 December 2020).

The Bank shows an interest bonus liability for SPI and SPV products. If the proportion of contracts that meet the conditions for paying the bonus was lower/higher by 10%, the profit at 31 December 2021 would be higher/lower by EUR 6 thousand (31 December 2020: higher/lower by EUR 0.1 thousand).

The Bank shows an interest bonus liability for BV2, BV1, B2V, BV3, BV4, B3V, and B4V short-term products. If the proportion of contracts that meet the conditions for paying the bonus was lower/higher by 10%, the profit at 31 December 2021 would be higher/lower by EUR 0 thousand (31 December 2020: higher/lower by EUR 3 thousand).

The Bank shows an interest bonus liability for savings products with an interest bonus of 2.5% in the first 12 months of the contract. If the proportion of contracts that meet the conditions for paying the bonus was lower/higher by 10%, the profit at 31 December 2021 would be higher/lower by EUR 3.9 thousand (31 December 2020: higher/lower by EUR 7 thousand). The Bank introduced an interest rate bonus of 2.5% in 2015.

The Bank shows an interest bonus liability for savings products with an interest bonus of 3.5% and 3% in the first 12 months of the contract. If the proportion of contracts that meet the conditions for paying the bonus was lower/higher by 10%, the profit at 31 December 2021 would be higher/lower by EUR 0 thousand for the interest bonus of 3.5% (31 December 2020: higher/lower by EUR 2 thousand) and by EUR 3.6 thousand for the interest bonus of 3% (31 December 2020: higher/lower by EUR 5 thousand).

The Bank shows an interest bonus liability for savings products with an interest bonus of 2% in the first 12 months of the contract. If the proportion of contracts that meet the conditions for paying the bonus was lower/higher by 10%, the profit at 31 December 2021 would be higher/lower by EUR 4.5 thousand (31 December 2020: higher/lower by EUR 2 thousand). The Bank introduced an interest rate bonus of 2% in 2018.

The sensitivity of the creation of the interest bonus provision for savings products is specified in Section 6.9.1 of the Notes.

4.3 Measurement of financial instruments

The accounting policies and accounting methods for determining fair value are described in Section 3.6 of the Notes.

The Bank determines fair values using the following method hierarchy:

- Quoted market price in an active market for an identical instrument (Level 1).
- Valuation techniques based on observable inputs. This category includes the following instruments: quoted market price in an active market for similar instruments, quoted prices for similar instruments in markets that are considered less active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data (Level 2).
- Valuation techniques using significant unobservable inputs. This category includes all instruments where valuation techniques include inputs that are not based on observable data and unobservable inputs may have a material effect on the valuation of the instrument. This category includes instruments that are measured at the market price for similar instruments for which a significant unobservable adjustment or assumption needs to be taken into account to reflect the difference between the instruments (Level 3).

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotes. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparisons with similar instruments for which there is a market with observable prices, and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and stock prices, foreign exchange rates, shares and stock indices, and expected volatilities and correlations. The objective of valuation techniques is to determine fair value, which reflects the price of a financial instrument at the reporting date, and which would be determined by market participants under market conditions.

The Bank uses a recognized and widespread valuation model to determine the fair value of common and simpler financial instruments, such as interest rate and currency swaps, which use observable market data and that require less managerial judgement and estimates. Observable prices and model inputs are usually available on the market for quoted bonds and equity securities, exchange-traded derivatives and simple over-the-counter derivatives, such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for managerial judgements and estimates and reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on products and markets and is more prone to change based on specific events and general financial market conditions.

For more complex instruments, the Bank uses its own valuation models, which are usually developed from recognized models. Some or all of the significant inputs to these models may not be observable from the market, but are derived from market prices or rates or are estimated based on assumptions. An example of an instrument that includes significant unobservable inputs is an instrument that contains some OTC structured derivatives, loans and securities for which there is no active market, and some investments in subsidiaries. Valuation models that use significant observable inputs require a higher degree of managerial judgement and estimation in determining fair value. Managerial judgements and estimates are usually required when selecting an appropriate valuation model, determining expected future cash flows from a financial instrument, determining the probability of counterparty default and early repayment, and selecting an appropriate discount rate.

The Bank has established a control system in connection with the determination of fair values. This system includes a product control function performed by the Controlling Department, which is independent of front office management. Specific controls include verification of observable price inputs and revaluation of valuation models, review and process approval for new models and model changes, calibration and back-testing of models based on observed market transactions, analysis and review of significant daily valuation movements and review of significant unobservable inputs and valuation adjustments.

The reported values of financial instruments measured at fair value, analysed according to the valuation methodology, are reported in Section 6.30 of the Notes (Fair value of financial instruments). Although the Bank believes its fair value estimates are reasonable, the use of different methodologies and assumptions could lead to different fair values.

A change in one or more assumptions used as a reasonable alternative to the assumption will have the following effects on the reported fair value measured using significant unobservable inputs. If the market interest rate was higher/lower by 1%, the impact on the other components of the comprehensive income would be as follows, while the interest income recognized in the income statement would not change:

31 December 2021 in thousands of EUR	Impact reported in P/L		Impact reported in OCI	
	Favourable	Unfavourable	Favourable	Unfavourable
Financial assets FVOCI	0	0	1,616	1,539
Total	0	0	1,616	1,539

31 December 2020 in thousands of EUR	Impact reported in P/L		Impact reported in OCI	
	Favourable	Unfavourable	Favourable	Unfavourable
Financial assets FVOCI	0	0	2,236	2,109
Total	0	0	2,236	2,109

4.4 Deferred tax asset

The deferred tax asset is recognized up to the amount of the expected taxable profit the Bank will achieve in the future.

As a result of a change to its business strategy and the decision to leave the market, the Bank reassessed the amount of the recognized deferred tax asset and reconciled its reported value with the expected value of the taxable profit generated, for example, from the sale of real estate and financial assets.

Based on the change of strategy described in Section 1.6 of the Notes, the Bank recognizes the value of a deferred tax asset to the extent that it expects to be amortized in the future.

5 FINANCIAL AND OPERATIONAL RISK MANAGEMENT

The Bank is exposed to the following main risks:

- Credit risk
- Liquidity risk
- Market risk

Information on individual risk exposures, objectives, approaches, processes for risk measurement and management, and on capital management is provided below.

The Bank's risk management system is adjusted and implemented in accordance with NBS Regulation No. 13/2010 on Other Types of Risks, Details of a Risk Management System of a Bank or a Branch of a Foreign Bank, which stipulates the definition of a sudden and unexpected change in market interest rates.

The Bank's risk management system includes:

- The Supervisory Board;
- The Board of Directors;
- The Internal Control and Internal Audit Department;
- The Risk Management and Controlling Department; and
- Specialist departments in the Bank's organizational structure.

Day-to-day risk management is the responsibility of the Risk Management Department. This department prepares a quarterly risk management report that assesses all risks of the Bank. The Board of Directors uses this report to make appropriate decisions and take the respective measures.

5.1 Credit risk

5.1.1 Credit risk management principles and limits

To mitigate credit risk related to loans provided to clients, the Bank sets:

- a lending strategy within the business and financial plan;
- lending procedures - assessment of borrower creditworthiness, assessment of the degree of exposure to credit risk using an automated scoring model, loan register, the Social Insurance Agency register and other information on client restrictions as regards loan provisions to individuals or a group of related parties;
- a procedure for identifying, managing, and collecting bad debts - repayment and reminder system, rules for internal and external debt collection; and
- the procedure for identifying, ascertaining, evaluating, monitoring, and managing credit risk - classification and measurement of receivables and creation of credit loss allowance.

Limits. The Bank prepares a structure of individual stages of credit risk it is exposed to when placing restrictions on the amount of risk it assumes towards one borrower or a group of borrowers, as well as geographical areas. Bank management regularly approves the limits set for credit risk stages. These limits are monitored periodically and reassessed at least once a year.

External publicly available ratings are assigned to counterparties by independent international rating agencies, such

as S&P, Moody's, or Fitch. The following ratings and the corresponding PD intervals are applied to investments in debt securities (bank bonds, government bonds, and corporate bonds).

Description of ratings

AAA	AAA-rated assets are considered to be the highest quality receivables with the lowest level of credit risk. It is highly unlikely that the borrower's ability to meet its obligations will be adversely affected by foreseeable events.
AA	AA-rated assets are considered to be of high quality and with very low credit risk. The borrower's ability to meet its obligations is not significantly jeopardized by foreseeable events.
A	A-rated assets are considered to be of above average quality and show low credit risk. However, the risk that the borrower's ability to meet its obligations as a result of changes in the economic or business environment will worsen is greater than for higher ratings.
BBB	BBB-rated assets are considered to be medium-risk assets with minor credit risk, and as such may have certain speculative characteristics.
BB	BB-rated assets are considered speculative and subject to significant credit risk.
B	B-rated assets are deemed to be speculative with high credit risk.
CCC	CCC-rated assets are deemed to be speculative and with very high credit risk.
CC	CC-rated assets are highly speculative and very close to default.
C	C-rated assets have the lowest rating and there is a low probability that the principal will be repaid.

The Bank does not apply credit ratings for loans provided to clients. When a loan is provided, the Bank uses application scoring. Subsequently, stages 1, 2, and 3 as set out in IFRS 9 for ECL determination are applied to individual loans (see Section 5.1.2 of the Notes).

Comments on the COVID-19 pandemic

The Bank is convinced that the limits set up for borrowers are sufficient even in the current crisis situation. In 2021, the Bank primarily raised capital for its activities on the interbank market, so it was almost exclusively in the position of a debtor to other banks and the same scenario is expected in 2022.

5.1.2 Creation of credit loss allowance for, and determining the amount of, expected credit losses (ECL) – Definitions

ECL is a probability-weighted estimate of the present value of future cash outflows (i.e. the weighted average of credit losses, where weighting coefficients represent the respective risks that the ability to repay liabilities will be lost in the given period). The ECL determination is unbiased and must be undertaken by evaluating a range of possible outcomes.

Bank uses four components to calculate ECL:

Exposure at Default (**EAD**) – an estimate of a financial institution's exposure to its counterparty at the time of default, taking into account expected changes in exposure after the reporting date, including repayment of principal and interest, and expected drawdown of promised funds.

Probability of Default (**PD**) – an estimate of the probability that a default will occur during the given period.

Loss Given Default (**LGD**) – an estimate of the amount of money a financial institution loses when a borrower defaults on a loan. The estimate is based on the difference between the amount of contractual cash flows due and the cash flows the creditor usually expects to receive, including those from a collateral. LGD is usually expressed as a percentage of EAD.

Discount rate – a tool for discounting expected credit losses to the present value at the reporting date. The discount rate represents the effective interest rate for a financial instrument (or its approximate estimate).

Lifetime period – the period during which ECL should be determined. For loans with a fixed date of maturity, the maximum lifetime period is identical with the remaining contractual period. The Bank estimates the remaining lifetime used in the ECL calculation separately for individual portfolios based on the behaviour of clients and the observed outflow of receivables. This period may not exceed the maximum lifetime specified in contractual conditions. For loan commitments and financial guarantee agreements, it is the maximum contractual period during which an entity has a present contractual obligation to extend the loan.

Lifetime ECL – losses that result from all possible defaults during the remaining life of a financial instrument. The remaining life of a financial instrument is determined by the lifetime from the previous section.

12-month ECL – the portion of lifetime expected credit losses that represent expected credit losses resulting from default events on a financial instrument that are possible within 12 months of the reporting date and that are limited by the remaining contractual life of a financial instrument.

Forward-looking information – includes key macroeconomic variables affecting credit risk and expected credit losses for each portfolio segment. The ubiquitous concept when determining the amount of ECL in accordance with IFRS 9 is that forward-looking information should be taken into account. When applying forward-looking information, the Bank uses NBS assumptions about Slovakia's economic development in future years, focusing mainly on macroeconomic indicators, such as the unemployment rate and GDP. Using these assumptions, the Bank compiles scenarios that it uses to model ECL. The impact of individual assumptions, the delay of their effect, or the effect of assumptions on each other constitute three standard scenarios, to which the probability of occurrence is assigned.

Credit Conversion Factor (**CCF**) – determines the probability that a loan commitment will be converted into a loan over a certain period. It can be calculated for a 12-month period, or for the entire remaining contractual life of a financial instrument. Based on the analysis performed, the Bank concluded that the 12-month CCF and the lifetime CCF are identical.

Purchased or originated credit impaired (**POCI**) financial assets – financial assets that are impaired immediately upon initial recognition.

Low credit risk financial assets – financial assets whose investment grade is defined by external credit rating agencies or have corresponding ratings defined by internal risk models. The assumption that there has been a significant increase in credit risk since initial recognition when financial assets are overdue for more than 30 days has not been refuted.

Default and credit-impaired assets – the loan is in default (i.e. meets the definition of an impaired loan) when one or more of the following criteria is/are met:

- The borrower is more than 90 days in arrears with its contractual payments;
- The Bank sold the borrower's debt at a loss;
- International credit rating agencies have assigned a Default rating to the borrower; or
- The borrower meets other qualitative criteria defined by the Bank (bankruptcy of the debtor, decision of the Accounts Receivable Coordinating Committee, significant outstanding deposits in the savings account, etc.).

The above definition of default is applied to all the Bank's financial assets. A financial instrument is no longer considered non-performing (i.e. it has recovered) when it no longer meets any of the default criteria for a predetermined period. This period is determined based on an analysis that takes into account the likelihood that the financial instrument will return to default after recovery, using various possible definitions of recovery.

Significant Increase in Credit Risk (**SICR**) – SICR is assessed both on an individual and portfolio basis. For debt securities measured at amortized cost or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers listed below. For loans provided to individuals or legal entities, SICR is assessed both on an individual (in terms of defined indicators of higher credit risk) and on a portfolio basis. The Risk Management Department monitors the criteria used to identify SICR and regularly reviews their appropriateness.

The Bank assumes there has been a significant increase in credit risk as regards a financial instrument when one or more of the following quantitative or qualitative criteria have been met.

For interbank operations and bonds:

- 30 days overdue; or
- Significant deterioration of the rating, CDS or other negative information about the issuer assessed by the Asset-Liability Committee (ALCO).

For loans granted to legal entities and individuals:

- a delay in repaying the receivable of at least 30 days (backstop),
- a delay of 0 days if additional qualitative criteria are met (outstanding deposits in the savings account allocated to the credit account, the loan is subject to recovery, forbearance in place (i.e. existence of adjustments to the loan repayment schedule), decision of the Accounts Receivable Coordinating Committee); or
- indications of an increase in credit risk since the loan was granted (outstanding deposits in the savings account allocated to the credit account, delay of at least 60 days in the last 6 months, indication of distraint of the client in the last 6 months, postponement due to 'Lex Corona'). The Accounts Receivable Coordinating Committee may classify individual exposures, exposures in designated regions, sectors, etc. to Stage 2 based on a significant increase in credit risk arising from other available information (including macroeconomic information).

Due to the coronavirus crisis and under 'Lex Corona' legislation, the Bank postponed repayments of clients who applied for postponement and met the legal conditions. Clients may request the Bank to postpone repayments for a period of up to 9 months. The Bank must satisfy the client's request if all legal requirements are met. However, the borrower must continue paying interest during postponement and interest is accrued over the period during which repayments are suspended. This postponement had no adverse impact on the client's risk profile in the credit register. The total amount of deferred repayments provided under 'Lex Corona' legislation is specified in Section 5.1.2.1 of the Notes.

The Bank applied a conservative approach to this portfolio and its classification and classified all the loans as Stage 2. The amount of this portfolio and the numbers of these applications are regularly monitored by the Board of Directors. Due to the economic situation in Slovakia caused by the pandemic, the Bank also applies a conservative approach to assessing the set-up of conditions for approving loans, especially unsecured loans. The Bank closely monitors the level of credit risk in the portfolio. In 2021, there was no significant increase in the Bank's non-performing loans.

If there is evidence that SICR criteria have not been met for 3 months, the instrument is transferred back to Stage 1. If the exposure has been moved to Stage 2 based on a qualitative or quantitative indicator (delayed repayments), the Bank monitors whether this indicator still exists or whether it has changed. This 3-month period is known as the probation or cure period.

Determining the ECL amount – description of estimation techniques

General principle

For non-POCI financial assets, ECL is generally determined based on the risk of default during one or two different pe-

riods, depending on whether or not the borrower's credit risk has increased significantly since initial recognition. This approach can be summarized in a three-stage model for determining the ECL amount:

- Stage 1 – a financial instrument that is not credit-impaired at initial recognition and whose credit risk has not increased significantly since initial recognition. The credit loss allowance due to expected credit losses is based on 12-month ECL.
- Stage 2 – if SICR is identified after initial recognition, the financial instrument is transferred to Stage 2 but is not yet considered credit-impaired, and the credit loss allowance due to expected credit losses is based on lifetime ECL.
- Stage 3 – if a financial instrument is credit-impaired, the financial instrument is transferred to Stage 3 and the credit loss allowance due to expected credit losses is based on lifetime ECL.

The Bank performs assessments on an individual basis for individually significant loans.

The following loans are classified as significant:

- Loans to legal entities – mostly for the construction of residential buildings in accordance with the Building Society Saving Act (310/1992), regardless of the target amount
- Building society loans to legal entities with a target amount over EUR 350,000
- Building society loans to individuals with a target amount over EUR 200,000
- Money market and capital market investments

The Accounts Receivable Coordinating Committee is responsible for the individual assessment of loans. The Asset-Liability Committee (ALCO) is responsible for the individual assessment of investments in the money and capital markets.

The Bank performs assessments based on external evaluations for the following types of loans: interbank loans, securities issued by banks, governments, and legal entities.

Assessment principles – Individual ECL assessments are made by estimating credit losses individually and are mainly based on professional judgement (individual assessment), or on a defined methodology that takes into account the characteristics of the loan (standardized calculation). Judgements are regularly tested to reduce the difference between estimates and actual losses. The ECL analysis according to the credit loss allowance and the ECL stage calculation models is presented in Section 5.1.1 of the Notes. The classification of these items can be found in Section 5.1.2.3 of the Notes.

In general, ECL is obtained by multiplying the following credit risk parameters: EAD, PD, and LGD (their definitions are shown above). Below is the general procedure used to calculate ECL. It may be applied to products assessed on a portfolio basis and to products for which the Bank has assessed credit risk on the basis of borrower-specific information.

The credit loss allowance is calculated by applying the formula:

$$OP_t = \sum_{i=t}^{t+n} \frac{(EaD_i + Undrawn\ amount * CCF_i) * PD_i * LGD_i}{(1 + UrS)^i}$$

where:

- LGDi – loss in the event of default in time i;
- EADi – exposure in the event of default in time i;
- PDi – probability of default in the period between time i and time (i+1) (cannot exceed 100%)
- CCFi – represents a proportional part of the loan commitment which will be converted into a loan in the next 12 months;

ECL are determined by predicting credit risk parameters (EAD, PD, and LGD) for each future month during the lifetime for each individual exposure.

Principles applied when calculating credit risk parameters

EADs are calculated based on the expected payment profile, which varies by product type:

- For amortized products, EAD is based on the contractual instalments the borrower must pay over a period of 12 months or the entire lifetime of the loan. For loan commitments, EAD is forecast by taking the current balance drawn and adding a 'credit conversion factor', which represents the expected drawdown of the remaining limit at the time of default. These assumptions vary depending on the product type and the concurrent use of limits.
- Two types of PDs are used to calculate ECL – 12-month PDs and lifetime PDs:
- 12-month PD – estimated probability of default over the next 12 months (or over the remaining life of a financial instrument if shorter than 12 months). This parameter is used to calculate the 12-month ECL. The 12-month PD assessment is based on the most up-to-date data on past defaults and is adjusted for forward-looking information on expected future developments.
- Lifetime PD – estimated probability of default over the remaining life of a financial instrument. This parameter is used to calculate ECL during the remaining life of a financial instrument for Stage 2 or Stage 3 exposures. The lifetime PD assessment is based on the most recent available data on previous defaults and is adjusted for forward-looking information.

For PD calculations, the Bank uses various statistical procedures depending on the segment and type of product (such as PD extrapolation over 12 months based on migration matrices) and calculates lifetime PD curves based on former default data and the vintage model. For lifetime PD calculations, the Bank uses data on past defaults and extrapolation of trends for longer periods during which data on defaults were not available.

LGD represents the Bank's expectations regarding the size of the loss from the defaulted exposure. LGD varies depending on the type of the counterparty and the availability of a collateral or other credit support.

12-month LGD and lifetime LGD are determined based on factors that affect expected yields after a default.

The procedure for determining LGD can be divided into three phases:

- determining LGD based on the specific characteristics of the collateral;
- calculating LGD on a portfolio basis based on yield statistics; and
- individually defined LGD depending on various factors and scenarios.

The LGD parameter for unsecured loans is scaled according to days of delay of the given loan and for loans secured by real estate according to the current loan-to-value (LTV) ratio. The LGD model uses statistics on discounted cash flows from non-performing loans.

Until recently, the Bank used internal resources and external legal services for debt collection and the recovery process took much longer compared to the current strategy. In accordance with the Bank's strategy, as described in Section 1.6 of the Notes, and the resulting financial and business plan, the Bank plans to sell non-performing receivables. LGD is simulated with an assumed collection period of 24 months. Cash flows after this period are reduced by applying a percentage from CFs determined by a conservative approach, which assumes a higher loss from the sale of non-performing loans. For secured receivables, the relation between LGD and LTV is modelled using available interpolation methods.

Calculating ECL for off-balance sheet financial instruments

ECL from off-balance sheet accounts is calculated as a proportional part of the total ECL, as the ECL calculation contains both a balance sheet and off-balance sheet (unused credit lines) part.

Assessment principles based on external ratings – the principles applied when calculating ECL based on external ratings are the same as for the portfolio-based assessment. Clients have a defined external credit rating, so the credit risk parameters (PD and LGD) may be taken from the default and loss statistics published by international rating agencies.

Forward-looking information incorporated into ECL models. ECL calculations incorporate forward-looking information about expected future developments. In the past, the Bank carried out analyses and identified the most important economic variables that affect credit risk and ECL for each portfolio. The incorporation of forward-looking information into ECL models consists in elaborating a prediction model that follows the linear relationship between changes in selected variables (in this case – the unemployment rate and year-on-year GDP growth) and the relative change in PD. Subsequently, regression is used to estimate the change in PD within a year depending on the expected changes in GDP and unemployment rate within a year. These changes are estimated based on published NBS forecasts for the unemployment rate and GDP changes. An estimate of a PD change within a year using a linear model is made as a weighted average of three PD parameters determined on the basis of three scenarios for changes in unemployment rate and GDP:

- Expected scenario – includes the unemployment rate and GDP estimates according to NBS forecasts. The probability of occurrence is assumed to be 60%.
- Favourable scenario – consists of the upper limit of NBS estimates for GDP growth and the lower limit of NBS estimates for unemployment rate changes. The probability of occurrence is assumed to be 20%.
- Adverse scenario – assumes that the scenario opposite to that which is expected will occur. An increase becomes a decrease and vice versa (changed signs in the expected scenario). The probability of occurrence is assumed to be 20%.

The values for the first year of the original PD curve are subsequently adjusted for the expected percentage change in the default rate.

Backtesting – The Bank regularly reviews its methodology and assumptions to reduce any discrepancies between estimates and current loan losses. Such backtesting is performed at least once a year if the conditions defined in the Bank's internal regulations are met.

The results of backtesting the methodology for ECL determination are presented to Bank management and further steps to fine-tune the models and assumptions are defined after discussions between eligible persons.

Modification of financial assets

The risk of default of these assets after modification is assessed at the reporting date and compared with the risk under the original conditions at initial recognition when the modification is not significant and thus does not result in derecognition of the original asset (see Section 3.7 of the Notes). The Bank monitors the subsequent performance of modified assets and may conclude that the credit risk has significantly improved after restructuring, so that the assets can be transferred from Stage 3 or Stage 2 (lifetime ECL) to Stage 1 (12-month ECL). However, this only applies to assets that have generated returns in accordance with the new conditions for at least six consecutive months. The Bank continues to monitor whether there has been a subsequent significant increase in credit risk in relation to such assets by using specific models for modified assets.

In 2020 and 2021, no financial assets requiring modification were identified.

5.1.2.1 Maximum credit risk exposure

The following table shows the gross carrying amount and credit loss allowance due to expected credit losses or impairment for loans and interim loans provided to clients and measured at amortized cost according to the ECL grade as at 31 December 2021 and 31 December 2020:

in thousands of EUR	31 December 2021			31 December 2020		
	Gross carrying amount	Credit loss allowance due to ECL	Carrying amount	Gross carrying amount	Credit loss allowance due to ECL	Carrying amount
Building society loans – secured						
Stage 1	2,824	2	2,822	2,674	1	2,673
Stage 2	436	2	434	467	6	461
Stage 3	226	37	189	103	8	95
Total building society loans – secured	3,486	41	3,445	3,244	15	3,229
Building society loans – unsecured						
Stage 1	7,685	23	7,661	8,880	16	8,864
Stage 2	238	3	235	265	2	263
Stage 3	331	306	25	468	386	81
Total building society loans – unsecured	8,254	332	7,922	9,613	405	9,208
Interim loans – individuals – secured						
Stage 1	190,815	1,421	189,395	190,645	1,226	189,419
Stage 2	26,574	475	26,099	45,206	1,797	43,408
Stage 3	7,763	2,014	5,749	6,013	2,032	3,981
Total interim loans – individuals – secured	225,153	3,909	221,243	241,864	5,056	236,808
Interim loans – individuals – unsecured						
Stage 1	46,363	451	45,912	49,478	264	49,214
Stage 2	7,404	248	7,155	17,713	366	17,348
Stage 3	13,342	11,116	2,226	13,209	9,706	3,502
Total interim loans – individuals – unsecured	67,109	11,815	55,294	80,400	10,336	70,064
Interim loans – legal entities						
Stage 1	48,327	86	48,241	49,086	53	49,032
Stage 2	878	1	877	689	0	689
Stage 3	0	0	0	0	0	0
Total interim loans – legal entities	49,205	87	49,118	49,775	54	49,721
Total building society loans and interim loans	353,207	16,184	337,023	384,896	15,866	369,031

As at 31 December 2021, the total carrying amount of loans and interim loans provided to clients and measured at amortized cost was EUR 337,023 thousand (31 December 2020: EUR 369,031 thousand).

As at 31 December 2021, the Bank shows loan commitments in the gross amount of EUR 6,617 thousand (31 December 2020: EUR 7,104 thousand). The Bank manages credit risk from provided unconditional loan commitments by monitoring their amount and during the loan approval process. As at 31 December 2021, the Bank created a credit loss allowance for loan commitments due to expected credit losses in the amount of EUR 6.6 thousand (31 December 2020: EUR 14.2 thousand).

The breakdown of loan commitments is presented in the following table. For Stage 3 loans, the Bank does not create a credit loss allowance for outstanding loan commitments, as there is no credit risk arising therefrom as the funds will not be paid to clients:

in thousands of EUR	31 December 2021		31 December 2020	
	Gross carrying amount	Credit loss allowance due to ECL	Gross carrying amount	Credit loss allowance due to ECL
Building society loans				
Stage 1	371	0.2	537	0.3
Stage 2	34	0	45	0
Stage 3	0	0	0	0
Total building society loan	405	0.2	582	0.3
Interim loans				
Stage 1	5,783	5.8	6,002	9.3
Stage 2	345	0.6	519	4.7
Stage 3	84	0	0.1	0
Total interim loans	6,212	6.4	6,522	13.9
Total building society loans and interim loans	6,617	6.6	7,104	14.2

Postponements related to COVID-19:

As at 31 December 2021 and 31 December 2020, the Bank reported the following volume and number of loans with postponed instalments provided in accordance with the 'Lex Corona' legislation (with ongoing postponement):

in thousands of EUR	31 December 2021	31 December 2020
Quantity	18	827
Gross carrying amount	1,145	37,984
Credit loss allowance after inclusion in Stage 2	22	1,228
Credit loss allowance for Stage 1	9	156
Impact of delays on the credit loss allowance	+13	+1,072

The following table shows the gross carrying amount and credit loss allowance due to expected credit losses or impairment for loans and interim loans provided to clients and measured at amortized cost according to models for the calculation of credit loss allowance and ECL at 31 December 2021:

in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Standardized calculation	296,014	35,529	10,991	342,535	1,982	728	4,214	6,925
Individual assessment	0	0	10,672	10,672	0	0	9,260	9,260
Total building society loans and interim loans	296,014	35,529	21,663	353,207	1,982	728	13,474	16,184

The following table shows the gross carrying amount and credit loss allowance due to expected credit losses or impairment for loans and interim loans provided to clients and measured at amortized cost according to models for the calculation of credit loss allowance and ECL as at 31 December 2020:

in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Standardized calculation	300,760	64,339	16,720	381,818	1,561	2,171	9,263	12,995
Individual assessment	4	2	3,073	3,078	1	1	2,870	2,871
Total building society loans and interim loans	300,764	64,340	19,792	384,896	1,562	2,172	12,132	15,866

5.1.2.2 Collateral

Impact of collateral:

31 December 2021	Receivables exceeding the value of the collateral received		Receivables below the value of the collateral received	
	Receivable value	Fair value of the collateral	Receivable value	Fair value of the collateral
in thousands of EUR				
Building society loans	8,255	0	3,485	15,663
Interim loans – individuals	76,181	6,044	216,081	301,539
Interim loans – legal entities	49,205	0	0	0
Total	133,641	6,044	219,566	317,202

31 December 2020	Receivables exceeding the value of the collateral received		Receivables below the value of the collateral received	
	Receivable value	Fair value of the collateral	Receivable value	Fair value of the collateral
in thousands of EUR				
Building society loans	9,625	0	3,232	13,890
Interim loans – individuals	90,778	8,150	231,489	321,547
Interim loans – legal entities	49,775	0	0	0
Total	150,178	8,150	234,721	335,437

The published fair value of a collateral, as determined by an internal expert, represents the fair value of real estate, the saved amounts in corresponding savings accounts and other escrow deposits. It does not include the value of guarantees provided by other persons, as it was deemed impossible to determine the fair value of a large number of individual guarantees accepted by the Bank.

The Bank does not have loans in its portfolio where the amount of the credit loss allowance would be zero due to a high value of the collateral (real estate).

The following table shows the gross carrying amount of receivables and credit loss allowance due to expected credit losses measured at amortized cost by loan-to-value (LTV) ratio and ECL stage at 31 December 2021:

SECURED LOANS in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LTV ≤ 50%	29,141	3,030	404	32,576	193	46	29	268
LTV 51-70%	39,792	5,229	1,389	46,410	289	81	169	539
LTV 71-80%	82,707	11,795	1,909	96,410	612	204	375	1,190
LTV 81-90%	38,787	5,741	1,656	46,185	299	113	395	807
LTV > 90%	3,212	1,215	2,631	7,058	29	32	1,084	1,145
Total secured loans	193,639	27,010	7,989	228,639	1,422	476	2,052	3,949

The following table shows the gross carrying amount of receivables and credit loss allowance due to expected credit losses measured at amortized cost by loan-to-value (LTV) ratio and ECL stage at 31 December 2020:

SECURED LOANS in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LTV ≤ 50%	28,227	3,713	278	32,218	137	41	15	193
LTV 51-70%	37,906	7,246	802	45,953	212	138	100	450
LTV 71-80%	77,325	16,742	887	94,954	490	646	193	1,330
LTV 81-90%	44,557	13,587	1,574	59,718	343	728	542	1,614
LTV > 90%	5,306	4,386	2,574	12,266	45	251	1,190	1,485
Total secured loans	193,321	45,674	6,156	245,109	1,228	1,803	2,039	5,071

The following table shows the gross carrying amount of receivables measured at amortized cost and the value of a collateral by ECL stages as at 31 December 2021 and 31 December 2020:

SECURED LOANS in thousands of EUR	31 December 2021		31 December 2020	
	Gross carrying amount	Security	Gross carrying amount	Security
Stage 1	193,639	279,829	193,320	279,397
Stage 2	27,010	33,875	45,673	57,278
Stage 3	7,989	9,542	6,116	6,911
Total secured loans	228,638	323,246	245,109	343,586
Other form of security	124,569	0	139,788	0
Total loans	353,207	323,246	384,897	343,586

5.1.2.3 Credit loss allowance due to expected credit losses

The following table shows the changes in the allowances for expected credit losses and in the gross carrying amount for loans and intermediate loans provided to customers between the first and last day of the reporting period:

BUILDING SOCIETY LOANS in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2021	11,555	732	571	12,857	18	8	394	420
Transfer to lifetime ECL: from Stage 1 to Stages 2 and 3	(240)	217	23	0	0	1	9	10
Transfer to credit-impaired category: from Stage 2 to Stage 3	0	(215)	215	0	0	(5)	37	32
Transfer to 12-month ECL: from Stages 2 and 3 to Stage 1	269	(266)	(3)	0	1	(1)	(1)	(1)
Transfer from Stage 3 to Stage 2	0	110	(110)	0	0	1	(13)	(12)
New loans	3,159	179	35	3,373	7	1	4	12
Cancelled loans	(1,846)	(31)	(74)	(1,951)	(3)	0	(69)	(72)
Other changes (without change of stage)	(2,388)	(52)	(99)	(2,539)	2	(1)	(18)	(16)
31 December 2021	10,509	674	558	11,740	25	4	343	373

Transfers to/from credit risk grades of financial assets represent an increase or decrease in credit loss allowance for the reporting period as shown in the value of credit loss allowance belonging to individual grades. New loans are loans which the Bank provided during the reporting period (the presentation of new credit loss allowance is divided into the stages in which financial assets (loans) are classified at year-end).

Cancelled loans are loans that were part of the loan portfolio at the beginning of the reporting period but were not part of this portfolio at its end. Other changes are changes in credit loss allowance for financial assets that were part of the loan portfolio both at the beginning and at the end of the reporting period and there was no change in their classification into the stage of credit risk of financial assets, e.g. a change in loan repayments, impact of the interest rate method, etc.

In 2021, transfers within the gross carrying amount were adjusted so that they totalled zero (last column), i.e. the amount that is removed from a given stage is equal to the amount that will be transferred to another stage. The original methodology also included a change in the amount of the portfolio during the year. In the current methodology, this difference is included in the line 'Other changes', so that the total sum of transfers by columns remains the same.

BUILDING SOCIETY LOANS	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
in thousands of EUR								
1 January 2020	13,285	620	622	14,527	29	6	454	489
Transfer to lifetime ECL: from Stage 1 to Stages 2 and 3	(350)	330	20	0	(1)	1	5	5
Transfer to credit-impaired category: from Stage 2 to Stage 3	0	(37)	37	0	0	(1)	11	10
Transfer to 12-month ECL: from Stages 2 and 3 to Stage 1	239	(172)	(67)	0	0	(2)	(23)	(25)
Transfer from Stage 3 to Stage 2	0	67	(67)	0	0	0	(17)	(17)
New loans	3,583	104	36	3,723	6	1	12	19
Cancelled loans	(2,157)	(61)	(29)	(2,247)	(5)	0	(19)	(24)
Other changes (without change of stage)	(3,045)	(119)	19	(3,145)	(11)	3	(29)	(37)
31 December 2020	11,555	732	571	12,857	18	8	394	420

INTERIM LOANS TO INDIVIDUALS AND EMPLOYEE LOANS	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
in thousands of EUR								
1 January 2021	240,123	62,919	19,222	322,264	1,491	2,163	11,738	15,392
Transfer to lifetime ECL: from Stage 1 to Stages 2 and 3	(11,166)	10,278	888	0	(31)	158	358	485
Transfer to credit-impaired category: from Stage 2 to Stage 3	0	(5,456)	5,456	0	0	(175)	1,921	1,746
Transfer to 12-month ECL: from Stages 2 and 3 to Stage 1	25,654	(25,565)	(89)	0	113	(779)	(22)	(688)
Transfer from Stage 3 to Stage 2	0	738	(738)	0	0	14	(172)	(158)
New loans	48,355	1,841	229	50,425	114	27	65	206
Cancelled loans	(69,280)	(10,174)	(2,544)	(81,998)	(189)	(346)	(1,871)	(2,406)
Other changes (without change of stage)	3,492	(603)	(1,318)	1,571	373	(339)	1,113	1,147
31 December 2021	237,178	33,978	21,106	292,262	1,871	723	13,130	15,725

INTERIM LOANS TO INDIVIDUALS AND EMPLOYEE LOANS	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
in thousands of EUR								
1 January 2020	285,913	16,652	19,835	322,400	1,049	1,043	12,833	14,925
Transfer to lifetime ECL: from Stage 1 to Stages 2 and 3	(45,500)	44,457	1,043	0	(196)	1,325	320	1,449
Transfer to credit-impaired category: from Stage 2 to Stage 3	0	(2,568)	2,568	0	0	(92)	847	755
Transfer to 12-month ECL: from Stages 2 and 3 to Stage 1	3,404	(3,116)	(288)	0	11	(108)	(210)	(307)
Transfer from Stage 3 to Stage 2	0	2,229	(2,229)	0	0	66	(877)	(811)
New loans	73,552	5,765	114	79,431	200	232	24	456
Cancelled loans	(79,534)	(2,114)	(1,157)	(82,805)	(254)	(64)	(904)	(1,222)
Other changes (without change of stage)	2,289	1,614	(664)	3,238	681	(239)	(295)	147
31 December 2020	240,123	62,919	19,222	322,264	1,491	2,163	11,738	15,392

INTERIM LOANS TO LEGAL ENTITIES	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
in thousands of EUR								
1 January 2021	49,086	689	0	49,775	53	0.2	0	54
Transfer to lifetime ECL: from Stage 1 to Stages 2 and 3	(654)	654	0	0	0	0	0	0
Transfer to credit-impaired category: from Stage 2 to Stage 3	0	0	0	0	0	0	0	0
Transfer to 12-month ECL: from Stages 2 and 3 to Stage 1	387	(387)	0	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	0	0	0	0	0	0	0
New loans	2,132	0	0	2,132	0	0	0	0
Cancelled loans	(3,164)	(205)	0	(3,369)	0	0	0	0
Other changes (without change of stage)	541	127	0	667	33	1	0	33
31 December 2021	48,327	878	0	49,205	86	1	0	87

INTERIM LOANS TO LEGAL ENTITIES	Gross carrying amount				Credit loss allowance due to ECL			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
in thousands of EUR								
1 January 2020	48,889	0	0	48,889	0	0	0	0
Transfer to lifetime ECL: from Stage 1 to Stages 2 and 3	(488)	488	0	0	0	0	0	0
Transfer to credit-impaired category: from Stage 2 to Stage 3	0	0	0	0	0	0	0	0
Transfer to 12-month ECL: from Stages 2 and 3 to Stage 1	0	0	0	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	0	0	0	0	0	0	0
New loans	3,764	0	0	3,764	0	0	0	0
Cancelled loans	(4,378)	0	0	(4,378)	0	0	0	0
Other changes (without change of stage)	1,299	201	0	1,500	53	0.2	0	54
31 December 2020	49,086	689	0	49,775	53	0.2	0	54

The most significant movements in the table are described below:

- Transfers between Stage 1 or Stage 2 and Stage 3 due to balances that have seen either a significant increase (or decrease) in credit risk or impairment during the reporting period, and a resulting 'step up' (or 'step-down') between 12-month ECL and lifetime ECL;
- Additional credit loss allowance for new financial instruments recognized during the reporting period, and releases for financial instruments that were derecognized during the reporting period;
- The impact of ECL calculations due to changes in model assumptions, including changes to PD, EAD, and LGD during the accounting period that result from regularly adding new inputs into models; and
- Write-off of credit loss allowance for assets that were derecognized (written off) during the accounting period.

The following table shows gross carrying amounts for loans and credit loss allowance by days past due (DPD) and stages as at 31 December 2021:

BUILDING SOCIETY LOANS	Gross carrying amount				Credit loss allowance due to ECL			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
in thousands of EUR								
DPD 0	10,509	465	25	10,999	25	2	3	29
DPD 30	0	146	134	280	0	2	24	26
DPD 60	0	63	1	64	0	1	1	1
DPD ≥ 90	0	0	397	397	0	0	316	316
Total building society loans	10,509	674	558	11,740	25	4	343	373

The following table shows gross carrying amounts for loans and credit loss allowance by days past due (DPD) and stages as at 31 December 2020:

BUILDING SOCIETY LOANS	Gross carrying amount				Credit loss allowance due to ECL			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
in thousands of EUR								
DPD 0	11,555	407	14	11,976	18	2	4	23
DPD 30	0	168	3	171	0	3	1	3
DPD 60	0	157	28	185	0	4	5	9
DPD ≥ 90	0	0	526	526	0	0	385	385
Total building society loans	11,555	732	571	12,857	18	8	394	420

The following table shows gross carrying amounts for interim loans to individuals and employee loans and credit loss allowance by days past due (DPD) and stages as at 31 December 2021:

INTERIM LOANS TO INDIVIDUALS AND EMPLOYEE LOANS	Gross carrying amount				Credit loss allowance due to ECL			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
in thousands of EUR								
DPD 0	237,178	27,927	2,977	268,082	1,871	553	1,001	3,425
DPD 30	0	4,557	957	5,514	0	131	324	454
DPD 60	0	1,494	447	1,941	0	39	130	169
DPD ≥ 90	0	0	16,725	16,725	0	0	11,676	11,676
Total interim loans to individuals and employee loans	237,178	33,978	21,106	292,262	1,871	723	13,130	15,725

The following table shows gross carrying amounts for interim loans to individuals and employee loans and credit loss allowance by days past due (DPD) and stages at 31 December 2020:

INTERIM LOANS TO INDIVIDUALS AND EMPLOYEE LOANS in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
DPD 0	240,123	57,303	757	298,184	1,491	1,944	276	3,711
DPD 30	0	4,405	173	4,578	0	174	51	224
DPD 60	0	1,211	465	1,676	0	46	127	173
DPD ≥ 90	0	0	17,826	17,826	0	0	11,284	11,284
Total interim loans to individuals and employee loans	240,123	62,919	19,222	322,264	1,491	2,163	11,738	15,392

The following table shows gross carrying amounts for interim loans to legal entities and credit loss allowance by days past due (DPD) and stages as at 31 December 2021:

INTERIM LOANS TO LEGAL ENTITIES in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
DPD 0	48,327	425	0	48,752	86	0,4	0	86
DPD 30	0	453	0	453	0	0,7	0	0,7
DPD 60	0	0	0	0	0	0	0	0
DPD ≥ 90	0	0	0	0	0	0	0	0
Total interim loans to legal entities	48,327	878	0	49,205	86	1	0	87

The following table shows gross carrying amounts for interim loans to legal entities and credit loss allowance by days past due (DPD) and stages as at 31 December 2020:

INTERIM LOANS TO LEGAL ENTITIES in thousands of EUR	Gross carrying amount				Credit loss allowance due to ECL			
	Stage1	Stage2	Stage3	Total	Stage1	Stage2	Stage3	Total
DPD 0	49,086	689	0	49,775	53	0,2	0	54
DPD 30	0	0	0	0	0	0	0	0
DPD 60	0	0	0	0	0	0	0	0
DPD ≥ 90	0	0	0	0	0	0	0	0
Total interim loans to legal entities	49,086	689	0	49,775	53	0,2	0	54

The following table shows the movements in the credit loss allowance account due to expected credit losses for receivables at amortized cost as at 31 December 2021 and 31 December 2020 reported in the income statement during 2021 and 2020:

Credit loss allowance due to expected credit losses (in thousands of EUR)	2021	2020
1 January	15,865	15,430
Creation / release of credit loss allowance for receivables from clients posted to expenses	1,885	1,460
Creation / release of credit loss allowance for receivables from clients in Stage 3 recognized via interest income	1,395	1,654
Irrecoverable loans and interim loans written off	(2,959)	(2,678)
31 December	16,185	15,865

5.1.3 Investments in debt securities

a) Investments in debt securities measured at FVOCI

The table below shows an analysis of credit risk exposure for debt securities measured at FVOCI as at 31 December 2021 and 31 December 2020, for which a credit loss allowance due to expected credit losses is recognized based on credit risk stages. A description of the credit risk assessment system which the Bank applies and the approach it applies to determine ECL, including the definition of default and SICR as applied to debt securities measured at FVOCI, is presented in Section 5.1.1 of the Notes.

The carrying amount of the following debt securities measured at FVOCI at 31 December 2021 and 31 December 2020 also represents the Bank's maximum exposure to credit risk for these assets:

in thousands of EUR	31 December 2021				31 December 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Government bonds	35,834	0	0	35,834	37,680	0	0	37,680
Bank bonds	0	0	0	0	1,021	0	0	1,021
Non-bank bonds	0	0	0	0	0	0	0	0
Remeasurement to fair value	6,286	0	0	6,286	8,386	0	0	8,386
Credit loss allowance	(7)	0	0	(7)	(8)	0	0	(8)
Total debt securities measured at FVOCI	42,113	0	0	42,113	47,079	0	0	47,079

Debt securities measured at FVOCI are not secured by a collateral.

For debt securities measured at FVOCI, there were no transfers either between individual recognition stages in the credit loss allowance set up due to expected credit losses or in the gross carrying amount between the first and the last day of the reporting period.

b) Investments in debt securities measured at amortized cost

The following table shows an analysis of debt securities measured at amortized cost by credit quality as at 31 December 2021 and 31 December 2020 based on credit risk stages and, for the purposes of calculating ECL, shows balances in all three stages. A description of the credit risk assessment system which the Bank uses and the approach it applies to determine ECL, including the definition of default and SICR as applied to debt securities measured at amortized cost, is presented in Section 5.1.1 of the Notes.

The carrying amount of the following debt securities measured at amortized cost as at 31 December 2021 and 31 December 2020 also represents the Bank's maximum exposure to credit risk for these assets:

in thousands of EUR	31 December 2021				31 December 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Government bonds	11,334	0	0	11,334	11,419	0	0	11,419
Bank bonds	4,019	0	0	4,019	4,017	0	0	4,017
Non-bank bonds	2,052	0	0	2,052	2,058	0	0	2,058
Credit loss allowance	(4)	0	0	(4)	(5)	0	0	(5)
Total debt securities measured at amortized cost	17,401	0	0	17,401	17,489	0	0	17,489

Debt securities measured at amortized cost are not secured by collateral.

At 31 December 2021 and 31 December 2020, no debt securities measured at amortized cost were pledged in favour of third parties as a collateral.

For debt securities measured at amortized cost, there were no transfers either between individual recognition stages in the credit loss allowance creation due to expected credit losses, or in the gross carrying amount between the first and the last day of the reporting period.

Credit quality of financial assets not yet due and not impaired, other than loan receivables:

in thousands of EUR	31 December 2021				31 December 2020			
	Amount	Rating Moody's	Rating S&P	Rating Fitch	Amount	Rating Moody's	Rating S&P	Rating Fitch
Target 2 clearing account - NBS	1,148	A2	A+	A	39	A2	A+	A
Current accounts at ČSOB	75	Baa1			79	Baa2		
Current accounts at Tatra banka	1	A3			8	Baa1		
Current accounts at UniCredit Bank Slovakia	301	A2			253	-		
Current accounts at 365.Bank	36	-			54	-		
Total	1,561				433			
VUB mortgage bonds	1,998	Aa1			1,995	Aa2		
Leeds BS bank bond	0				1,027	A3		A-
Rabobank bank bond	2,022	Aa2	A+	AA-	2,022	Aa3	A+	AA-
Daimler bond	2,052	A3	A-	A-	2,058	A3	BBB+	BBB+
Government bonds FVOCI - Slovakia	37,782	A2	A+	A	39,453	A2	A+	A
FVOCI government bonds - Poland	2,150	A2	A-	A-	4,354	A2	A-	A-
FVOCI government bonds - Spain	2,187	Baa1	A	A-	2,253	Baa1	A	A-
AC government bonds / Slovakia	11,334	A2	A+	A	11,419	A2	A+	A
Total	59,525				64,581			

Categorization of average PDs by financial asset ratings (except for loan receivables):

in thousands of EUR	31 December 2021		31 December 2020	
	Amount	Average PD	Amount	Average PD
AAA to AA-	2,022	0,07%	2,022	0,07%
A+ to A-	58,953	0,06%	60,540	0,05%
BBB+ to BBB-	75	0,19%	2,145	0,21%
BB+ to BB-	36	1,86%	0	0
Without rating	0	0	307	1,50%

For investments without an external rating, PD for the 'All Rated' category in the Moody's table is used, which is roughly comparable with PD value in the lower BB area and thus represents a conservative approach.

Lower PD for A ratings compared to AAA/AA is due to the fact that most of the Bank's exposure to A-rated exposures is from Slovak bonds and, as these are government exposures, they have a lower PD for the same rating. In other words, exposure to the government has a lower PD for an A rating than for an A rating of a bank or company.

5.1.4 Principles and procedures followed by the Bank in collecting debts from debtors

To maintain maximum efficiency of the debt collection process, each case is assessed individually; the realistic possibilities of the debtor and the persons who secured his liability are taken into account. By carefully selecting the appropriate form of debt collection, the Bank strives for timely elimination of subsequent adverse consequences associated with the debtor's default.

The first step of internal debt collection is a reminder process and subsequently more radical collection methods to recover receivables are applied, e.g. via the courts, by foreclosure or voluntary auction of the pledged real estate, which is undertaken on behalf of the Bank by an authorized law firm.

During the multi-stage reminder process, the debtor and guarantors are contacted by phone and in writing and requested to pay the outstanding monthly instalments, with the offer that if settled promptly, the debtor will be permitted to continue repaying his obligation in the previously agreed manner. If these reminders are ignored, the Bank proceeds with the recovery of its receivables depending on how they are secured:

- receivables secured by the guarantor – enforcement via the courts;
- receivables secured by a notary protocol on the acknowledgment of the obligation and consent to execution in the event of non-payment – collection in execution proceedings;
- receivables secured by a lien on real estate - recovery by a voluntary auction of the pledged real estate.

If the debtor is willing to pay the collected liability (also during judicial recovery or execution), the Bank allows them to settle it based on an extraordinary repayment schedule.

Extraordinary repayment schedule outside enforcement in court or via execution

If immediately after withdrawal from the loan agreement or the sending of a request for immediate repayment of borrowed loans due, the client expresses their willingness to pay, but their financial situation does not allow them to repay the debt in a lump sum, an agreement may be made on an extraordinary repayment schedule. However, if the client fails to comply with this newly agreed repayment schedule, the Bank or the law firm authorized by the Bank may withdraw from it and initiate enforcement in court or via execution.

Court proceedings

The Bank initiates court proceedings when an extraordinary repayment schedule has not been approved for the client and if a notary protocol is not available as an execution title. In such a case, the authorized law firm will send a request for a payment order to the competent court on behalf of the Bank.

Attempt at out-of-execution settlement

In exceptional cases, after the court decision becomes valid and it appears during the court proceedings that there is a possibility that the receivable will be repaid without execution, the authorized law firm may invite the debtors on behalf of the Bank to undertake out-of-execution settlement. If the client reacts positively, a special repayment schedule may be agreed in writing.

Execution proceedings

The Bank enforces receivables through bailiffs in accordance with the Execution Rules. A petition for execution is filed if a valid and enforceable court decision is issued in favour of the Bank, or if a notary protocol is available as an execution title in a given case in accordance with Slovak legislation.

Voluntary auction

The Bank also collects debts via auctions in accordance with the Slovak Voluntary Auctions Act. This method is applied to outstanding debts secured by a lien in favour of the Bank. An auction is conducted based on an auction contract concluded between the Bank and the auctioneer. The contract must contain all the requirements stipulated by law. Information on conducting the auction must be published in the central notary register of auctions.

Enforcement via mandataries

Based on mandate agreements, mandataries (third parties) perform activities in the name and on behalf of the Bank to collect the Bank's receivables from obligated persons. Their activities include realization of systematic written and phone calls to obligated persons or personal visits, if necessary, submission of proposals for issuing a payment order or for conducting an execution.

If the Bank requested immediate full repayment of a loan, accounting for any repayments received from that loan is the same as when accounting for payments received from clients that are not behind schedule and were not requested to repay their loans in full immediately.

5.1.5 Credit risk concentration

A concentration of credit risk arises when there are credit claims with similar economic characteristics that affect the ability of the borrower to meet their obligations.

In accordance with the Building Society Saving Act, the Bank may only provide building society loans to building society saver, which may be:

- an individual who has concluded a building savings contract with a building society or for whose benefit a building savings contract is concluded;
- a community of apartment owners established under a special regulation, which concludes a building savings contract with the building society or for the benefit of which a building savings contract is concluded; and
- a legal entity other than that stated above, which concludes a building savings contract with the building society or for the benefit of which a building savings contract is concluded.

The purpose of saving with a building society is to finance housing and housing-related needs in Slovakia. The Bank only

carries out its activities in Slovakia. It accepts deposits from building society savers, provides loans to building society savers, and provides consulting services related to saving with a building society. The Bank performs other banking activities only to a minimum extent. This eliminates the risk of credit risk concentration by country and industry. The risk of credit risk concentration by borrowers is minimized by the limits the Bank has set.

At the reporting date, the Bank does not have a significant concentration of credit risk towards any borrower or an economically related group of borrowers.

5.1.6 Processes for managing the Bank's capital

The Bank's objectives in capital management are as follows:

- compliance with capital requirements set by the regulatory authority;
- ability to continue as a going concern to generate profits for shareholders; and
- maintaining a strong capital base to support its business activities.

Bank management monitors capital adequacy and the use of regulatory capital using techniques based on guidelines developed by the Basel Commission and European Community regulations applied by the competent national authority for supervisory purposes. The required data must be provided to the competent authority on a quarterly basis.

The competent authority requires each bank or a banking group to maintain a minimum specific amount of regulatory capital and keep the ratio of total regulatory capital to assets with a specified risk (the Basel ratio) above an internationally agreed minimum level of 8%, plus capital buffers defined by the regulator. The current setting of capital cushions in Slovakia includes 2.5% for a capital preservation buffer and 1.0% for an anti-cyclical buffer.

Assets with a specified risk are recognized based on defined risk categories by the type of each individual asset and counterparty and with regard to an estimate of credit, market, and other related risks, taking into account the accepted security: collateral and guarantee. A similar principle is applied to off-balance sheet accounts, using several adjustments that reflect the nature of potential losses.

The Bank's position regarding the own funds is shown in the following table:

in thousands of EUR	31 December 2021	31 December 2020
Own funds		
Tier 1 capital		
Share capital and share premium (Section 6.16 of the Notes)	16,597	16,597
Reserve funds and other revenue reserves	3,319	3,319
Retained earnings, without current-year profit	20,465	19,770
less: losses for the current financial year	(2,118)	0
less: intangible assets	(1,276)	(1,625)
Transitional capital adjustments under IFRS 9	1,949	2,728
Positive valuation differences	4,965	6,626
Total Tier 1 capital	43,901	47,415
Tier 2 capital		
Positive valuation differences	0	0
Amount by which credit loss allowance exceed the expected loss from the bank's assets and other bank exposures	0	0
Total Tier 2 capital	0	0
Total own funds	43,901	47,415

Position Transitional capital adjustments based on IFRS 9: Based on IFRS 9, the Bank was obliged to set up additional credit loss allowance in the amount of EUR 3,898 thousand at 1 January 2018. Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 introduces transitional arrangements to mitigate the impact of the introduction of IFRS 9 on own funds. Under this Regulation, 50% of the additionally created credit loss allowance may still be part of own funds in 2021. This coefficient will be reduced to 0% over the next few years.

The amounts of share capital, share premium, and intangible assets included in the calculation of own funds are taken from the financial statements prepared in accordance with IFRS as adopted by the EU.

Risk weighted assets are listed in the following table:

in thousands of EUR	31 December 2021	31 December 2020
Risk weighted assets	204,830	241,887
Total risk-weighted assets	204,830	241,887
Capital ratios		
Total own funds as a percentage of risk-weighted assets	21.43%	19.60%
Total Tier 1 capital as a percentage of risk-weighted assets	21.43%	19.60%

As at 31 December 2021, the Bank's own funds totalled EUR 43,901 thousand (31 December 2020: EUR 47,415 thousand). Until 31 December 2021 (as in 2020), the Bank complied with capital adequacy in accordance with the legislative requirements of the NBS.

5.2 Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its obligations when they fall due.

Liquidity management comprises a set of activities implemented to prevent significant and unexpected cash surpluses or shortages while achieving the required economic efficiency.

The basic objectives of the Bank's liquidity management include:

- minimize liquidity risk, i.e. ensure a lasting ability to meet financial obligations duly and on time;
- in connection with arranging the required liquidity flow, minimize losses with regard to the conversion of non-monetary assets into cash, i.e. avoid unnecessary costs of obtaining additional funds;
- ensure compliance with the defined minimum reserves;
- ensure compliance with rules and limits set by the NBS; and
- ensure compliance with internal rules and limits.

Liquidity risk is a significant risk for the Bank, and due attention is paid to its management.

The Bank has prepared an internal regulation for its liquidity risk management strategy. This regulation contains the main principles and methods the Bank uses in liquidity risk management.

The Bank monitors liquidity risk by the expected remaining maturities of assets and liabilities. Liquidity is managed exclusively in euro, as the vast majority of assets and liabilities are realized in euros. The main cash inflows to the Bank are primary funds obtained from client deposits. The main cash outflows are liquid funds required for building society loans and interim loans, contract cancellations, and operating costs.

For proper liquidity management, the Bank has defined basic and alternative scenarios for liquidity management.

To manage liquidity risk, the Bank also uses limits defined by the NBS.

The Bank does not face imminent liquidity risk due to withdrawal of deposits upon cancellation of building savings contracts, as there is a specific time interval of 3 months defined in the General Terms and Conditions for the payment of building savings funds. Therefore, if client demand for drawing these funds is higher, the Bank will have sufficient time to resolve the situation by selling liquid assets.

The Bank has prepared a Contingency Plan, which details measures to resolve temporary and long-term liquidity problems. In critical situations, the Director of Risk Management and Controlling Division is obliged to call a meeting attended by the Director of Division I (Sales, Marketing and Communication, and Product Development departments) and a dealer from the Treasury Department at which the situation will be evaluated in detail. Subsequently, the Director of the Risk Management and Controlling Division informs the Board of Directors which makes a final decision on the solution. Long-term liquidity is monitored by the Controlling Department. An employee of the Treasury Department is responsible for short-term liquidity.

The primary financing source for the Bank's activities (provision of interim loans and building society loans) is the building society saving fund (§ 1 Sections 2 and 3 of the Act on Saving with a Building Society), which mainly consists of building society savers' deposits, accrued interest, and the state premium. The state premium is a contribution for building society savers from the national budget, the amount of which is updated by the Act on Saving with a Building Society, which also determines who is currently entitled to receive the contribution and in what amount. The funds purchased on the money market serve for refinancing interim loans and covering short-term liquidity shortages. The funds to be purchased are secured by highly liquid securities.

The Bank is not exposed to a high risk of concentration of resources as building saving products have a maximum target amount (EUR 200 thousand for individuals and EUR 3 million for legal entities).

The tables below present an analysis of financial assets and financial liabilities by the respective maturity dates. This analysis was performed based on the contractual maturity date at the reporting date. Assets and liabilities are disclosed as undiscounted contractual cash benefits.

Impact of COVID-19 on liquidity and liquidity risk

Money and capital market:

The COVID-19 pandemic did not have a significant impact on the money market, unlike the stock market, oil or gold. Banks undertook their standard operations on the money market and did not review the limits for counterparties due to the coronavirus crisis. The euro was traded at fixed prices. Security prices were also relatively stable, i.e. there were no larger fluctuations than in the pre-pandemic period.

Expectations: Problems could arise due to delays, or cessation of vaccination. The prolongation of the crisis could particularly jeopardize corporations operating in more sensitive areas of the economy and the securities they issued. However, even if this happens the Bank does not expect any significant problems, as securities in the portfolio are intended to be held to maturity and so even an extension of their spreads will not affect the Bank's profit/(loss). Prices are currently higher than when purchased.

Loans and deposits:

Under 'Lex Corona', the Bank postponed repayments to clients. However, considering the volume of postponements (specified in Section 5.1.2.1 of the Notes) and the maximum grace period of 9 months, this does not have any material impact on the Bank's liquidity. The COVID-19 pandemic also did not cause any problems on the deposit side. The Bank complies with statutory and internal indicators of liquidity coverage.

Contractual remaining maturity of financial assets and liabilities:

31 December 2021	≤ 1 month	>1 month ≤ 3 months	>3 months ≤ 1 year	>1 year ≤ 5 years	> 5 years	Undefined maturity	TOTAL	Carrying amount
in thousands of EUR								
Cash and cash equivalents	1,561	0	0	0	0	0	1,561	1,561
Investments in debt securities	58	55	1,747	52,438	6,079	0	60,377	59,514
Receivables from clients	2,767	5,173	23,630	118,393	342,914	0	492,877	337,023
Other financial assets	26	0	0	0	0	0	26	26
Total financial assets	4,412	5,228	25,377	170,831	348,993	0	554,841	398,124

	≤ 1 month	>1 month ≤ 3 months	>3 months ≤ 1 year	>1 year ≤ 5 years	> 5 years	Undefined maturity	TOTAL	Carrying amount
in thousands of EUR								
Payables to clients	59,852	16,019	37,533	164,075	49,766	0	327,245	312,974
Liabilities to banks	30,993	15,997	0	0	0	0	46,990	46,990
Other financial liabilities	387	0	0	0	0	34	421	421
Loan commitments	6,617	0	0	0	0	0	6,617	6,617
Total financial liabilities	97,849	32,016	37,533	164,075	49,766	34	381,273	367,002

Expected remaining maturity of non-discounted financial liabilities:

31 December 2021	≤ 1 month	>1 month ≤ 3 months	>3 months ≤ 1 year	>1 year ≤ 5 years	> 5 years	Undefined maturity	TOTAL
in thousands of EUR							
Payables to clients	12,784	22,087	58,207	186,953	46,612	0	326,643
Liabilities to banks	30,993	15,997	0	0	0	0	46,990
Other financial liabilities	387	0	0	0	0	34	421
Loan commitments	6,617	0	0	0	0	0	6,617
Total financial liabilities	50,781	38,084	58,207	186,953	46,612	34	380,671

Liabilities to banks represent short-term refinancing from banks, mostly with a maturity of up to 3 months. After the due date, refinancing is renewed up to EUR 40 million. The client may draw funds from loan commitments within 1 year after they have been granted. Based on the Bank's analysis, these funds are mostly used within 5 months after being granted. Other financial liabilities with indefinite maturities represent provisions set up in connection with the estimated amount of commissions to be paid to intermediaries.

Contractual remaining maturity of financial assets and liabilities:

31 December 2020	≤ 1 month	>1 month ≤ 3 months	>3 months ≤ 1 year	>1 year ≤ 5 years	> 5 years	Undefined maturity	TOTAL	Carrying amount
in thousands of EUR								
Cash and cash equivalents	434	0	0	0	0	0	434	448
Investments in debt securities	58	55	2,791	48,203	14,277	0	65,384	64,568
Receivables from clients	1,696	3,375	17,167	94,674	430,210	0	547,122	369,031
Other financial assets	33	0	0	0	0	0	33	33
Total financial assets	2,221	3,430	19,958	142,877	444,487	0	612,973	434,080

	≤ 1 month	>1 month ≤ 3 months	>3 months ≤ 1 year	>1 year ≤ 5 years	> 5 years	Undefined maturity	TOTAL	Carrying amount
in thousands of EUR								
Payables to clients	75,624	9,315	48,114	167,650	104,139	0	404,842	382,235
Liabilities to banks	2,900	7,998	0	0	0	0	10,898	10,898
Other financial liabilities	929	0	0	0	0	47	976	976
Loan commitments	7,090	0	0	0	0	0	7,090	7,090
Total financial liabilities	86,543	17,313	48,114	167,650	104,139	47	423,806	401,199

Expected remaining maturity of non-discounted financial liabilities:

31 December 2020	≤ 1 month	>1 month ≤ 3 months	>3 months ≤ 1 year	>1 year ≤ 5 years	> 5 years	Undefined maturity	TOTAL
in thousands of EUR							
Payables to clients	403	562	1,877	83,930	340,931	0	427,703
Liabilities to banks	2,900	7,998	0	0	0	0	10,898
Other financial liabilities	929	0	0	0	0	47	976
Loan commitments	7,090	0	0	0	0	0	7,090
Total financial liabilities	11,322	8,560	1,877	83,930	340,931	47	446,667

The Bank recalculated the remaining maturity of financial liabilities from cash flows the Bank expects to receive based on its historical experience.

5.3 Market risk

Market risk is the risk of loss resulting from the Bank's position and from changes in the values of risk factors determined by the market. The main components of market risk are: interest rate risk, foreign exchange risk, equity risk, and commodity risk. Due to the type of transactions performed, the Bank is not exposed to equity or commodity risk.

In 2021 and 2020, the Bank was not exposed to significant foreign exchange risk; client deposits are accepted, and loans are provided in the functional currency. Liabilities and receivables from the Bank's operating activities in currencies other than the functional currency did not have a significant impact on the Bank's foreign exchange risk.

Operations related to market risk include the following: government bond transactions, NBS treasury bills transactions, mortgage bond transactions, setting interest rates on loans and interim loans, and transactions on the interbank market.

Interest rate risk

Interest rate risk arises from fluctuation of the value of a financial instrument due to changes in market interest rates and that the maturity of interest-bearing assets will differ from the maturity of interest-bearing liabilities used as a source of funding for these assets. The time interval during which an interest rate is fixed to a financial instrument determines the extent to which that financial instrument is exposed to interest rate risk.

The Bank uses the outlier ratio method to manage interest rate risk, which is based on GAP analysis. The Bank performs the GAP analysis on a monthly basis.

If the market interest rate increased/decreased by 1%, this change would affect the newly opened savings accounts as well as new interim loans and building society loans, and the impact on the profit/(loss) at 31 December 2021 would be positive/negative by EUR 172 thousand (31 December 2020: EUR 158 thousand). The impact on equity resulted from a change in the price of financial assets held for sale due to an interest rate change by 1% would be EUR -1,539 thousand / 1,616 thousand) (31 December 2020: EUR 2,109 thousand).

Effective interest rates of financial instruments:

in %	31 December 2021	31 December 2020
Cash and cash equivalents	(0.37)	(0.06)
Receivables from banks	0	0
Financial assets at fair value (FVOCI)	4.45	4.23
Receivables from clients	2.66	2.85
Financial assets at amortized cost	1.83	1.83
Client deposits	1.08	1.27

Financial instruments, liabilities, and loan commitments by category:

31 December 2021	Amortized cost	Fair value through other comprehensive income (FVOCI)	Total carrying amount	Fair value
in thousands of EUR				
Cash and cash equivalents	1,561	0	1,561	1,561
Investments in debt securities	17,401	42,113	59,514	60,834
Receivables from clients, of which:				
- building society loans	11,936	0	11,936	11,069
- interim loans - individuals	276,677	0	276,677	356,087
- interim loans - legal entities	48,417	0	48,417	60,562
Other financial assets	26	0	26	26
Total financial assets	356,018	42,113	398,131	490,139
Liabilities to clients	312,974	0	312,974	319,030
Liabilities to banks	46,990	0	46,990	46,990
Other financial liabilities	421	0	421	421
Total financial liabilities	360,385	0	360,385	366,441

As at 31 December 2021, off-balance sheet liability commitments are posted in the net amount of EUR 6,610 thousand.

31 December 2020	Amortized cost	Fair value through other comprehensive income (FVOCI)	Total carrying amount	Fair value
in thousands of EUR				
Cash and cash equivalents	448	0	448	448
Investments in debt securities	17,489	47,079	64,568	66,281
Receivables from clients, of which:				
- building society loans	12,979	0	12,979	13,434
- interim loans – individuals	307,003	0	307,003	388,148
- interim loans – legal entities	49,063	0	49,063	60,067
Other financial assets	33	0	33	33
Total financial assets	387,015	47,079	434,094	528,411
Liabilities to clients	382,235	0	382,235	394,141
Liabilities to banks	10,898	0	10,898	10,898
Other financial liabilities	976	0	976	976
Total financial liabilities	394,109	0	394,109	406,015

As at 31 December 2020, off-balance sheet liability commitments are posted in the net amount of EUR 7,090 thousand.

Impact of the COVID-19 pandemic:

The impact of the COVID-19 pandemic on the money and capital markets and the securities portfolio is described in Section 5.2 of the Notes (Liquidity risk). The Bank did not identify any significant impact of the COVID-19 pandemic on bank-wide interest rate risk.

5.4 Operational risk

Operational risk is the risk of loss resulting from inappropriate or erroneous internal processes in the Bank, from the failure of the human factor, from the failure of systems the Bank uses, or from external events.

The Bank identifies the following basic types of operational risks:

- personnel risk;
- legal risk;
- external risk;
- information risk; and
- outsourcing risk.

The analysis and identification of operational risks is an integral part of all changes at the Bank. The analysis of operational risks is based on the Bank's subjective assessment of individual parameters that enter into this analysis. It is usually based on the experience of asset owners and their views on possible vulnerabilities and threats, the impact of the threats, and the likelihood that they will materialize.

One of the basic principles of operational risk management is the responsibility of each manager to manage the risks involved in the processes they own. Managers are responsible for coordinating matters related to individual processes, identifying and assessing operational risk, and collecting and recording data on operational risk events and losses. The

Risk Management Division ensures coordination of activities between organizational units for processes that involve more than one organizational unit.

The breakdown of operational risks is performed in accordance with international standards for information risk management and in accordance with NBS Regulation No. 13/2010 of 31 August 2010 on Other Types of Risks, Details of a Risk Management System of a Bank or a Branch of a Foreign Bank which defines a sudden and unexpected change in market interest rates.

Personnel risks

Personnel risks are characterized as risks caused by the actions of staff, employees, and advisors leading to errors in processing, intentional or unintentional human actions which damage the Bank's assets.

The condition for classifying a given risk as a personnel risk is a clear demonstration of the fact that the event was caused by human action. A special subgroup of personnel risks includes risks associated with the recruitment of new employees, motivation and remuneration of employees, and substitutability of individual job positions. These risks, including the tools for their management, are covered by the Bank's HR strategy. The Human Resources Department is responsible for developing and updating the HR strategy.

Legal risks

Legal risk is the risk arising mainly from the unenforceability of contracts, unsuccessful court proceedings, or adverse rulings for the Bank.

External risks

External risks are all risks from the external environment that have not been included in other types of operational risks, e.g. damage to property due to someone else's fault, natural disaster, industrial accident, insufficient level of services provided, etc.

Information risks

Information risks are risks that constitute a threat to information assets, e.g. misuse, damage or loss of business, banking, personal data, etc.

Outsourcing risk

This risk arises when banking activities are performed by a third party.

6 ADDITIONAL INFORMATION ON THE STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AND THE STATEMENT OF PROFIT OR LOSS (INCOME STATEMENT)

6.1 Cash and cash equivalents

Cash and cash equivalents as at 31.12.2021 and 31.12.2020 comprise the following items:

in thousands of EUR	31 December 2021	31 December 2020
Cash on hand	0	2
Current accounts	413	391
Deposits with central banks	1,148	40
Other receivables from banks	0	15
Cash and cash equivalents	1,561	450
Credit loss allowance	0	(2)
Total	1,561	448

6.2 Investments in debt securities

in thousands of EUR	31 December 2021	31 December 2020
Debt instruments at fair value (FVOCI)	42,113	47,079
Debt instruments at amortized cost	17,401	17,489
Total investments in debt instruments	59,514	64,568

The following table shows investments in debt instruments by valuation category and class:

in thousands of EUR	31 December 2021			31 December 2020		
	Debt instruments at fair value (FVOCI)	Debt instruments at amortized cost	Total	Debt instruments at fair value (FVOCI)	Debt instruments at amortized cost	Total
Government bonds	42,120	11,334	53,454	46,060	11,419	57,479
Bank bonds	0	4,019	4,019	1,027	4,017	5,044
Non-bank bonds	0	2,052	2,052	0	2,058	2,058
Investments in debt instruments (fair value or gross carrying amount)	42,120	17,405	59,525	47,087	17,494	64,581
Allowances	(7)	(4)	(11)	(8)	(5)	(13)
Investments in debt instruments (carrying amount)	42,113	17,401	59,514	47,079	17,489	64,568

As at 31 December 2021 and 31 December 2020, non-bank bonds include a Daimler AG bond. In 2021, the Bank sold a government bond of EUR 1,954 thousand (2020: EUR 0) and a bank bond of EUR 1 million (2020: government bonds totalling EUR 26,848 thousand) became due.

6.3 Receivables from clients

Section 5.1.2.1 of the Notes shows the gross carrying amount of loans and interim loans provided to clients (except for off-balance sheet accounts) and the carrying amount of the credit loss allowance due to expected credit losses or impairment of loans and interim loans provided to clients as at 31 December 2021 and 31 December 2020.

The credit loss allowance for expected credit losses on loans and interim loans provided to clients, reported in the current accounting period, is affected by various factors. Details on calculating ECL are presented in Section 5.1.1 of the Notes.

6.4 Property, plant and equipment

An overview of changes in property, plant and equipment ('PPE') for the current and previous accounting period is presented in the table below:

in thousands of EUR	Buildings and structures	Land	Instruments and equipment	Other PPE	PPE under construction	Total
Acquisition cost						
1 January 2021	6,118	547	729	1,598	26	9,018
Additions	0	0	0	0	53	53
Transfer	0	0	0	66	-66	0
Transfers (from PPE to assets held for sale)	(5,658)	(481)	0	0	0	(6,139)
Disposals	0	0	0	(23)	0	(23)
31 December 2021	460	66	729	1,641	13	2,909

Accumulated depreciation and credit loss allowance

1 January 2021	(2,952)	0	(727)	(1,407)	0	(5,086)
Additions	(86)	(36)	(2)	(101)	0	(225)
Transfers (from PPE to assets held for sale)	2,813	36	0	0	0	2,849
Disposals	0	0	0	23	0	23
31 December 2021	(225)	0	(729)	(1,485)	0	(2,439)

Net book value

31 December 2021	235	66	0	156	13	470
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in thousands of EUR	Buildings and structures	Land	Instruments and equipment	Other PPE	PPE under construction	Total
Acquisition cost						
1 January 2020	6,118	547	742	1,577	3	8,987
Additions	0	0	0	0	86	86
Transfers	0	0	0	63	-63	0
Disposals	0	0	(13)	(42)	0	(55)
31 December 2020	6,118	547	729	1,598	26	9,018
Accumulated depreciation and credit loss allowance						
1 January 2020	(2,856)	0	(729)	(1,351)	0	(4,936)
Additions	(96)	0	(11)	(97)	0	(204)
Transfers	0	0	0	0	0	0
Disposals	0	0	13	41	0	54
31 December 2020	(2,952)	0	(727)	(1,407)	0	(5,086)
Net book value						
31 December 2020	3,166	547	2	191	26	3,932

As at 31 December 2021, the Bank records fully depreciated tangible assets at an acquisition cost of EUR 1,612 thousand (31 December 2020: EUR 1,980 thousand) that are still used.

In 2021, the Bank's PPE was insured against damage or destruction caused by a natural disaster up to the amount of EUR 1,784 thousand (2020: EUR 9,349 thousand). At 31 December 2021, insurance premiums totalled EUR 11 thousand (31 December 2020: EUR 16,000).

There are no restrictions on ownership rights to the Bank's assets and no assets are pledged as a collateral for the Bank's liabilities.

6.5 Investment property

in thousands of EUR	Investment property	Investment property under construction	Total
Acquisition cost			
1 January 2021	3,671	1	3,672
Additions	0	2	2
Transfers (from investment property to assets held for sale)	(2,720)	0	(2,720)
Disposals	0	0	0
31 December 2021	951	3	954
Accumulated depreciation and credit loss allowance			
1 January 2021	(1,761)	0	(1,761)
Additions	(45)	0	(45)
Transfers (from investment property to assets held for sale)	1,345	0	1,345
31 December 2021	(461)	0	(461)
Net book value			
31 December 2021	490	3	493

in thousands of EUR	Investment property	Investment property under construction	Total
Acquisition cost			
1 January 2020	3,671	1	3,672
Additions	0	0	0
Transfers	0	0	0
Disposals	0	0	0
31 December 2020	3,671	1	3,672
Accumulated depreciation and credit loss allowance			
1 January 2021	(1,703)	0	(1,703)
Additions	(58)	0	(58)
Transfers	0	0	0
31 December 2020	(1,761)	0	(1,761)
Net book value			
31 December 2020	1,910	1	1,911

The Bank uses and partially leases its own buildings in Nitra and Banská Bystrica and leases all of a building on Vajnorská street in Bratislava. The value of the leased buildings is recognized as part of 'Investment property'. In 2021, the building in Košice and the headquarters building in Bratislava were reclassified from the 'Investment property' to the 'Assets held for sale' category.

The market value of investment property determined by an expert in the relevant valuation field was EUR 907 thousand as at 31 December 2021 (31 December 2020: EUR 3,433 thousand). The year-on-year decline in the market value of investment property is due to the reclassification of both buildings (see previous paragraph) to held-for-sale assets. The Bank applied the yield method using the market rental rate and income as the most important inputs in determining the market value of real estate. Market values are based on a revaluation prepared by an accredited expert. When determining the real estate value, all available information was taken into account (such as the development of real estate prices, the current condition of the real estate, the possible impact of the COVID-19 crisis, etc.).

Level 3 was used for the measurement of real estate, i.e. techniques based on observable market data.

Until 31 December 2021, operating costs of investment property amounted to EUR 120 thousand (31 December 2020: EUR 138 thousand) and the rental income totalled EUR 191 thousand (31 December 2020: EUR 206 thousand).

An overview of non-cancellable leases is presented in Section 6.27 of the Notes.

6.6 Assets held for sale

in thousands of EUR	2021	2020
1 January	0	0
Acquisition	0	0
Transfers	4,665	0
Fair value adjustments	0	0
31 December	4,665	0

In 2021, the Bank decided to sell its immovable property in Košice and its headquarters building in Bratislava. Therefore, both property items in the total amount of EUR 4,665 thousand were reclassified from 'Investment property' and 'PPE' to 'Assets held for sale'. These are assets that are intended for sale in their current condition and the sale is considered as highly probable within one year of classification.

In 2021, the real estate in Košice and the headquarters building in Bratislava were insured against damages or destruction caused by a natural disaster up to EUR 7,564 thousand (2020: EUR 7,564 thousand). As at 31 December 2021, insurance premiums totalled EUR 3 thousand.

6.7 Intangible assets

An overview of changes in intangible assets for the current accounting period is presented in the table below:

in thousands of EUR	Software	Intangible assets under development	Total
Acquisition cost			
1 January 2021	5,768	61	5,829
Additions	0	249	498
Transfer	249	(249)	0
Disposals	(86)	0	(86)
31 December 2021	5,931	61	5,992
Accumulated depreciation and credit loss allowance			
1 January 2021	(4,198)	0	(4,198)
Additions	(489)	0	(489)
Disposals	86	0	86
31 December 2021	(4,601)	0	(4,601)
Net book value			
31 December 2021	1,330	61	1,391

in thousands of EUR	Software	Intangible assets under development	Total
Acquisition cost			
1 January 2020	5,903	37	5,940
Additions	0	224	224
Transfer	200	(200)	0
Disposals	(335)	0	(335)
31 December 2020	5,768	61	5,829
Accumulated depreciation and credit loss allowance			
1 January 2020	(4,134)	0	(4,134)
Additions	(399)	0	(399)
Disposals	335	0	335
31 December 2020	(4,198)	0	(4,198)
Net book value			
31 December 2020	1,570	61	1,631

As at 31 December 2021, the Bank records fully amortized intangible assets at an acquisition cost of EUR 2,548 thousand (31 December 2020: EUR 2,550 thousand) that are still used.

6.8 Other assets

in thousands of EUR	31 December 2021	31 December 2020
Other (financial) assets		
Various debtors	220	233
Credit loss allowance	(194)	(200)
Other receivables from clients - fees	32	395
Credit loss allowance for receivables from fees	(32)	(395)
Total other financial assets	26	33
Other (non-financial) assets		
Inventories	35	57
Operating advance payments provided	38	51
Deferred expenses and accrued income	237	293
Other non-financial assets	195	348
Total other non-financial assets	504	749
Total other assets	530	782

As at 31 December 2021, other (financial) assets include overdue receivables of EUR 32 thousand (31 December 2020: EUR 395 thousand), for which credit loss allowance of EUR 32 thousand was set up (31 December 2020: EUR 395 thousand).

Other receivables from clients relate to fees charged on clients' savings deposits where the client had saved insufficient funds to settle these fees.

The 'Various debtors' line mainly includes receivables from commissions of EUR 196 thousand (31 December 2020: EUR 201 thousand). A 100% credit loss allowance amounting to EUR 194 thousand is set up for receivables from commissions overdue for more than 90 days (31 December 2020: EUR 200 thousand).

The most significant part of Operating advance payments provided includes prepayments to suppliers and advances for commissions provided to building savings consultants.

As at 31 December 2021, the most significant items which the Bank keeps under deferred expenses and accrued income include the cost of intercompany projects of EUR 185 thousand (31 December 2020: EUR 248 thousand) and prepaid property insurance, licenses, rental expenses, and IT services totalling EUR 51 thousand (31 December 2020: EUR 46 thousand).

Creation and use of credit loss allowance for various Bank's debtors:

in thousands of EUR	1 January 2021	Creation	Use	31 December 2021
Credit loss allowance for various debtors				
Total	(200)	2	8	(194)

in thousands of EUR	1 January 2020	Creation	Use	31 December 2020
Credit loss allowance for various debtors				
Total	(204)	0	4	(200)

Creation and use of credit loss allowance for Bank's receivables from fees:

in thousands of EUR	1 January 2021	Creation	Use	31 December 2021
Credit loss allowance for receivables from fees				
Total	(395)	0	363	(32)

in thousands of EUR	1 January 2020	Creation	Use	31 December 2020
Credit loss allowance for receivables from fees				
Total	(344)	51	0	(395)

The credit loss allowance for Bank's receivables from fees is used when the respective receivable was written off or reversed.

6.9 Liabilities to clients

Liabilities to the Bank's clients and other creditors consist of items described in the sections below.

6.9.1 Liabilities to clients and other creditors

in thousands of EUR	31 December 2021	31 December 2020
Savings deposits of individuals	296,553	366,706
Savings deposits of legal entities, of which:	14,082	13,062
- savings deposits of apartment owner associations	13,852	13,062
Other liabilities to clients	2,339	2,467
Total	312,974	382,235

Other liabilities to clients include liabilities from bonus schemes for savings deposits:

Bonus scheme for savings deposits (Flexibil interest bonus)

Since 2002, the Bank has accounted for a liability from the bonus scheme for savings deposits. In accordance with § 5 of the General Terms and Conditions for Saving with a Building Society related to the Flexibil interest bonus, the Bank may pay building society savers a bonus on the building savings contract after six years of savings, the amount of which the Bank determines twice a year. Another condition for obtaining an interest rate bonus is a written statement of a building society saver to waive a claim for a building society loan for the entire term of the contractual relationship.

The basis for accounting for the liability is the accrued interest on uncanceled building savings contracts. The proportion of contracts that met the conditions for obtaining an interest rate bonus was 29.4% (Section 4.2 of the Notes).

Bonus scheme for savings deposits (BV3 + BV2)

In 2009, the Board of Directors approved bonus schemes for savings deposits of 2% (BV2) and 3% (BV3) for the first contract year for contracts concluded as of 1 February 2009. The bonus is credited upon contract termination after completing the 2-year (BV2) or 3-year (BV3) period of commitment. From this bonus scheme, the Bank accounts for a liability calculated using the effective interest rate method. The bonus scheme for savings deposits (BV3 + BV2) was effective until 31 May 2010.

Bonus scheme for savings deposits (SPI + SPV)

In 2009, the Board of Directors approved 2%, 3%, and 4% interest bonuses for the first contract year (depending on the amount of the deposit) for building savings contracts concluded as of 1 February 2009 if the specified conditions were met (including a 6-year contract condition). For contracts that lasted a minimum of 3 years, but were terminated before completing year 6, the bonus is reduced). From this bonus scheme, the Bank accounts for a liability calculated using the effective interest rate method.

Bonus scheme for savings deposits (BV1 + B2V + BV4)

In 2010, the Board of Directors approved bonus schemes for savings deposits of 1% (BV1) and 2% (BV4) for the first contract year for contracts concluded as of 1 June 2010. In line with the development of market interest rates, the bonus was gradually decreased (at 31 December 2021, the bonus for 2-year B2V products was 0.0%). The bonus is credited upon contract termination after completing the 2-year (BV1 and B2V) or 3-year (BV4) period of commitment. From this bonus scheme, the Bank accounts for a liability calculated using the effective interest rate method.

Bonus scheme for savings deposits (B4V + B3V)

In 2011, the Board of Directors approved bonus schemes for savings deposits of 2.5% (B3V) and 3.5% (B4V) for the first contract year for contracts concluded as of September 2011. In line with the development of market interest rates, the bonus was gradually decreased (at 31 December 2021, the bonus for 3-year B3V products and for 4-year B4V products was 0.0%). The bonus is credited upon contract termination, with a minimum period of commitment of 3 years (B3V) or 4 years (B4V). From this bonus scheme, the Bank accounts for a liability calculated using the effective interest rate method.

Bonus scheme for savings deposits – 2.5% (3.5%, 3%)

In 2015, the Board of Directors approved a bonus scheme for savings deposits of 2.5% for building savings contracts with a 6-year cycle. The 2.5% bonus is calculated from a building society saver's deposits made during the first 12 months of the respective building savings contract, up to a maximum of EUR 3,000. The interest bonus is credited to the building savings account upon completion of the 6-year cycle. If the contract is terminated within 6 years of its effectiveness (termination, merger, assignment), the client is not entitled to the interest bonus. The Bank accounts for a liability from this bonus scheme calculated using the effective interest rate method.

Sensitivity of creation of an interest bonus liability for savings products:

in thousands of EUR	Creation in 2021	+10% simulation	-10% simulation
BV products	0	0	0
Bonus - 2.5%	39	3.9	(3.9)
Bonus - 3%	36	3.6	(3.6)
Bonus - 3,5%	0	0	0
Bonus - 2%	45	4.5	(4.5)

in thousands of EUR	Creation in 2020	+10% simulation	-10% simulation
Flexibil interest bonus	0.4	0	0
BV products	1	0.1	(0.1)
SPI (SPV) special offer	60	6.0	(6.0)
Bonus - 2.5%	54	5.4	(5.4)
Bonus - 3%	24	2.4	(2.4)
Bonus - 3,5%	40	4	(4)
Bonus - 2%	21	2.1	(2.1)

In the first half of 2016, the interest rate for building savings contracts with a 6-year cycle was reduced from 1.5% to 1% p.a. To increase the attractiveness of this product, the bonus was increased from 2.5% to 3.5%. The terms and conditions for this bonus remained unchanged. As of 1 August 2016, the bonus was decreased from 3.5% to 3%, and the bonus was cancelled as of 1 March 2017. On 1 February 2018, a 2% bonus was introduced during the first 12 months from the conclusion of a building savings contract up to a maximum of EUR 3,000.

Other liabilities to clients include the following items:

in thousands of EUR	31 December 2021	31 December 2020
Flexibil interest bonus	37	53
Bonus for savings deposits (BV3 + BV2) / (BV1 + B2V + BV4)	3	4
Bonus for savings deposits (B4V + B3V)	39	61
Bonus for savings deposits - 2.5%; 3.5%; 3%, 2.0%	478	639
Liabilities from cancelled contracts	1,761	1,710
Other liabilities arising from deposits	21	0
Total	2,339	2,467

In 2021, the remaining liability from cancelled contracts at 31 December 2021 amounts to EUR 1,726 thousand, representing 2,088 contracts with an average saved amount of EUR 827 (31 December 2020: liability from cancelled contracts amounted to EUR 1,695 thousand, representing 1,522 contracts with an average saved amount of EUR 1,113).

6.9.2 Structure of Bank's client deposits

The table below presents the structure of Bank's client deposits by remaining contractual maturity:

in thousands of EUR	31 December 2021	31 December 2020
≤ 1 month	59,482	75,262
(1 month, 3 months>	15,907	9,262
(3 months, 1 year>	36,911	47,383
(1 year, 5 years>	155,388	158,998
≥ 5 years	43,791	90,015
Undefined	1,495	1,315
Total	312,974	382,235

As at 31 December 2021, the Bank had 56,309 building savings accounts (31 December 2020: 80,123).

6.10 Liabilities to banks

Liabilities to banks include term deposits of other banks with a contractual maturity of up to 3 months. The Bank reports the following liabilities to banks:

in thousands of EUR	31 December 2021	31 December 2020
Term deposits from other banks	46,990	10,898
Total	46,990	10,898

6.11 Short-term provisions, deferred income and accrued expenses

As at 31 December 2021 and 31 December 2020, the Bank accounts for the following short-term provisions and items of deferred income and accrued expenses:

Provision for untaken holiday, rewards, and supplies and services not yet billed

The Bank sets up short-term provisions for untaken holiday and rewards, including mandatory contributions to social and health insurance of its employees, and for services not yet billed, which comprise the audit of the financial statements, preparation of the corporate income tax return, and the preparation of the annual report.

in thousands of EUR	31 December 2021	31 December 2020
Short-term provision for services not yet billed	19	50
Short-term provision for untaken holiday	96	111
Short-term provision for rewards and royalties	334	241
Other accrued income and deferred expenses	325	0
Total	774	402

In 2021, accrued liabilities are shown in Section 6.15 of the Notes (Other liabilities).

6.12 Long-term provisions

The Bank sets up a long-term provision for risks arising from lawsuits which are expected to fail. The creation of this provision depends on the expected amount of claims from litigation. Lawsuits are mainly brought against former employees of the external sales network and former Bank employees. The amount of the provision represents the time-weighted present value of these future liabilities.

in thousands of EUR	31 December 2021	31 December 2020
Provision for litigations	273	172
Total	273	172

The tables below provide an overview of the creation and use of the long-term provision in 2021 and 2020:

in thousands of EUR	1 January 2021	Creation	Use	31 December 2021
Provision for litigations	172	110	9	273
Total	172	110	9	273

in thousands of EUR	1 January 2020	Creation	Use	31 December 2020
Provision for litigations	160	12	0	172
Total	160	12	0	172

6.13 Tax liabilities / assets – current income tax

The tax liability is calculated according to the profit/(loss) recorded in the books kept in line with Slovak legislation and the Slovak Income Tax Act (Act No. 595/2003 Coll. on Income Tax, as amended).

Tax liabilities – current income tax

in thousands of EUR	31 December 2021	31 December 2020
Opening balance of the current income tax receivable	125	356
Income tax paid	271	152
Current income tax (Section 6.26 of the Notes)	2	(383)
Closing balance of the current tax receivable	398	125

6.14 Deferred tax asset/liability

Deferred tax is calculated from all temporary differences using the 21% (2020: 21%) tax rate that is applicable to the period in which the deferred tax is expected to be settled.

in thousands of EUR	31 December 2021	31 December 2020
Credit loss allowance for financial assets	2,114	3,335
Expenses tax deductible only when paid	25	177
Financial and other liabilities (especially interest bonus)	325	267
Tax loss	65	0
PPE and intangible assets	(795)	(670)
Financial investments: debt securities measured at FVOCI	(1,318)	(1,761)
Deferred tax asset	416	1,348

in thousands of EUR	2021	2020
Deferred tax asset - 1 January	1,348	1,066
Deferred tax posted to the income statement (Section 6.26 of the Notes)	(1,373)	50
Deferred tax posted to equity accounts: remeasurement of financial assets available for sale / FVOCI	441	232
Deferred tax asset - 31 December	416	1,348

6.15 Other liabilities

in thousands of EUR	31 December 2021	31 December 2020
Other (financial) liabilities		
Liabilities from commissions	95	690
Various creditors	292	239
Liability from commissions for intermediaries	34	47
Total other financial liabilities	421	976
Other (non-financial) liabilities		
Settlement with employees	133	177
Other taxes	66	72
Appropriations to the social fund from wages and from profit	23	29
Settlement with social institutions	88	122
Deferred income and accrued expenses	17	27
Total other non-financial liabilities	327	427
Total	748	1,403

Other liabilities include the Bank's short-term liabilities with a maturity of up to 1 year. The Bank has no overdue liabilities.

The line 'Various creditors' mainly includes liabilities to suppliers as at 31 December 2021 of EUR 252 thousand (31 December 2020: EUR 214 thousand).

According to § 43 of the Slovak Income Tax Act, the bank is obliged to deduct and remit withholding tax on interest accrued on clients' building savings accounts. As at 31 December 2021, withholding tax constituted a Bank liability of EUR 656 thousand (31 December 2020: EUR 841 thousand).

In the statement of financial position (balance sheet) which is part of the Bank's financial statements for the year ended 31 December 2021, withholding tax is shown in the line 'Withholding tax' (in the 2020 financial statements, withholding tax was included in the line 'Other liabilities' in the statement of financial position).

Liabilities from outstanding commissions for concluding a building savings contract

Under the Commission Rules, the Bank pays commissions to an intermediary for concluding building savings contracts and for increasing the target amounts. When a deposit is made, 80% of this commission amounting to the fee for concluding the contract or for increasing the target amount is paid. The remaining 20% of the commission is paid when the conditions specified in the Commission Order are met.

The decrease in the amount of commission liabilities (EUR 95 thousand as at 31 December 2021 and EUR 690 thousand at 31 December 2020) is due to a change in the Bank's strategy, which terminated the sale of new contracts for its products in 2021 (described in Section 1.6 of the Notes).

6.15.1 Creation and use of the social fund

in thousands of EUR	2021	2020
1 January	29	33
Creation		
- expensed	34	36
- % of profit	0	0
Use	40	40
Social fund as at 31 December	23	29

6.16 Equity

As at 31 December 2021 and 31 December 2020, the Bank's share capital consisted of 1,000 fully paid-up shares with a nominal value of EUR 16,597 per share. All shares are listed with the Slovak Central Securities Depository (Centrálny depozitár cenných papierov, a.s.).

According to the Commercial Code, the Bank is obliged to set up a legal reserve fund upon its establishment in the amount of at least 10% of the share capital. Appropriations are made annually of at least 10% of net profit, up to a maximum of 20% of the share capital (EUR 3,319 thousand). The mandatory appropriation to the legal reserve fund is no longer necessary, as the fund reached its legal maximum limit in 2015.

On 21 June 2021, the General Meeting approved the transfer of the entire 2020 profit to retained earnings, decided not to pay dividends from the 2020 profit to the Bank's shareholders and to not pay royalties to the members of its Supervisory Board.

in thousands of EUR	31 December 2020
Transfer to retained earnings	695
Total	695

The Board of Directors proposes to transfer the entire 2021 loss to retained earnings.

6.17 Net interest income

in thousands of EUR	31 December 2021	31 December 2020
Interest income calculated using the effective interest rate		
From receivables from clients	10,117	10,825
From current accounts and term deposits at other banks	62	44
From debt securities measured at amortized cost	319	394
From debt securities measured at FVOCI	1,599	1,702
Total interest income calculated using the effective interest rate	12,097	12,965
Interest expenses		
From savings deposits	5,595	5,437
From term deposits of other banks	1	2
Total interest expenses	5,596	5,439
Net interest income	6,501	7,526

As at 31 December 2021, interest income from impaired loans amounted to EUR 1,513 thousand (31 December 2020: EUR 1,586 thousand).

6.17.1 Interest income from receivables from clients

in thousands of EUR	31 December 2021	31 December 2020
Interest on interim loans	9,070	9,659
Interest on building society loans	480	557
Interest on late instalments	567	609
Total	10,117	10,825

As at 31 December 2021, the credit loss allowance for interest income from building society loans and interim loans classified in Stage 3 amounted to EUR 982 thousand (31 December 2020: EUR 954 thousand). The credit loss allowance for interest income decreases the value of net interest income.

6.17.2 Interest income from investments in debt securities

in thousands of EUR	31 December 2021	31 December 2020
Bank bonds	32	51
Government bonds	1,840	2,002
Mortgage bonds	22	19
Non-bank bonds	24	24
Total	1,918	2,096

6.18 Net fee and commission income

in thousands of EUR	31 December 2021	31 December 2020
Fee and commission income		
Fees received from clients, of which:		
- account management fee	1,139	1,337
- account statement fee	360	341
- court fees for litigations with clients	147	123
- account cancellation fee	711	857
- other fees	590	280
- commissions	27	34
Total fee and commission income	2,974	2,972
Fee and commission expense		
Sales agent commissions (e.g. for offices, incentive commissions not related to individual contracts)	229	154
Banking fees	53	43
Other fees	46	53
Total fee and commission expense	328	250
Net fee and commission income	2,646	2,722

Until 31 December 2021, the Bank wrote off receivables from clients, which represented a negative balance on savings accounts, in the total amount of EUR 125 thousand (until 31 December 2020: EUR 153 thousand). These receivables are included in the item 'Account maintenance fee'.

6.19 General operating expenses

in thousands of EUR	31 December 2021	31 December 2020
Advertising costs	259	243
Material consumption	55	104
Repair and maintenance	89	85
Short-term rent and lease of low-value items	167	193
Telecommunication costs	138	130
Software maintenance	1,038	976
Indirect taxes	157	113
Professional services	103	53
Audit costs	58	60
Energy consumption	86	75
Education	22	28
Other services purchased	465	361
Total	2,637	2,421

In 2021, the Bank incurred costs for auditor services related to the audit of its financial statements amounting to EUR 53 thousand (2020: EUR 54 thousand) and set up a short-term provision for these services in the amount of EUR 8 thousand (31 December 2020: EUR 40 thousand). The cost of the audit performed by a statutory auditor also included the audit of prudential returns and the preparation of an extended report in line with the requirements of the Banking Act.

6.20 Personnel costs

in thousands of EUR	31 December 2021	31 December 2020
Wages and salaries	3,076	2,709
Pension schemes with defined contributions and other social and health insurance costs, of which:	927	887
- pension schemes with defined contributions	513	523
Total	4,003	3,596

6.21 Depreciation of PPE and investment property and amortization of intangible assets

in thousands of EUR	31 December 2021	31 December 2020
Depreciation of PPE and investment property, of which:	234	262
- depreciation of PPE	188	204
- depreciation of investment property	46	58
Amortization of intangible assets	490	399
Total	724	661

6.22 Other operating income

in thousands of EUR	31 December 2021	31 December 2020
Profit from the sale of PPE	0	1
Rental income	316	256
Other operating income	71	28
Total	387	285

6.23 Other operating expenses

in thousands of EUR	31 December 2021	31 December 2020
Contribution to the Deposit Protection Fund	280	34
Unclaimed VAT	374	358
Special levy	0	851
Other operating expenses	143	146
Total	797	1,389

6.24 Creation and release of credit loss allowance for loans and write-off of receivables

in thousands of EUR	31 December 2021	31 December 2020
Net creation of credit loss allowance	(1,885)	(1,460)
Total	(1,885)	(1,460)

If debt collection is not successful or the cost of collection was higher than the amount recovered, the Bank writes off such receivables. As at 31 December 2021, the Bank wrote off receivables from non-performing building society loans and interim loans in the total amount of EUR 2,959 thousand (31 December 2020: EUR 2,678 thousand). The sum of receivables written-off equals balances of building society loans and interim loans without the effect of credit loss allowance.

The Bank writes off receivables in the following cases:

- irrecoverable and unassigned receivables, the recovery of which would no longer be efficient;
- debt collection is waived due to a legally binding court decision or an executor's statement of their unenforceability; or
- based on interbank regulations.

6.25 Creation and release of impairment allowance for other assets and derecognition (write-off) of other assets

in thousands of EUR	31 December 2021	31 December 2020
Creation of impairment allowance for other assets, of which:		
- for bank accounts	(2)	(2)
- for receivables being recovered	(2)	0
- for investments	(332)	0
- to PPE	(36)	0
Release of impairment allowance for other assets, of which:		
- for bank accounts	4	3
- for receivables being recovered	8	4
- for investments	0	0
- to PPE	0	0
Net creation / release of impairment allowance for other assets	(360)	5
Derecognition (write-off) of other assets	1	(4)
Impairment allowance and derecognition of other assets in total	(359)	1

6.26 Income tax

in thousands of EUR	31 December 2021	31 December 2020
Profit/(loss) for the current accounting period before taxes	(747)	1,028
of which: theoretical corporate income tax of 21%	(157)	216
Credit loss allowance	66	96
Provisions	58	27
Expenses tax deductible only when paid	(120)	(18)
Other items that are not a tax-deductible expense	88	78
Corporate income tax for the taxable period	0	333
Current income tax (Section 6.13 of the Notes)	(2)	383
Deferred income tax (Section 6.14 of the Notes)	1,373	(50)
Total income tax charge	1,371	333

in thousands of EUR	31 December 2021		31 December 2020	
	%	in thousands of EUR	%	in thousands of EUR
Pre-tax profit		(747)		1,028
Income tax at the current tax rate	21	(157)	21	216
Credit loss allowance	(8.82)	66	9.33	96
Provisions	(7.75)	58	2.65	27
Other non-taxable income/tax non-deductible expenses	4.32	(32)	5.80	60
		8.75		399
Additional tax for the previous year	0.27	(2)	(1.56)	(16)
Current income tax	0.27	(2)	37.23	383
Deferred income tax (taxed at the 21% tax rate)	(183.76)	1,373	(4.86)	(50)
Effective tax rate and income tax	(183.49)	1,371	32.37	333

The 2021 corporate income tax rate is 21% (2020: 21%). The tax rate for deferred income tax is also 21% (2020: 21%).

Current income tax is calculated in accordance with the Slovak Income Tax Act and the tax base is derived from the profit/(loss) reported in the financial statements prepared in accordance with IFRS as adopted by the EU.

6.27 Operating lease

Summary of future minimum lease payments for non-cancellable operating leases in which the Bank is the lessor:

in thousands of EUR	31 December 2021	31 December 2020
Minimum lease payments	48	59
Up to 1 year	48	59

The Bank leases part of its own operating premises in Nitra and Banská Bystrica to Wüstenrot poisťovňa, a.s. on the basis of operating lease agreements.

6.28 Related party transactions

The Company entered into several transactions with related parties in the ordinary course of business. The transactions were carried out under normal business terms and conditions and relationships and at arm's length.

The Bank's related parties include the following entities:

Bank's shareholders

Bausparkasse Wüstenrot AG

Other group undertakings

Wüstenrot poisťovňa, a.s.
Wüstenrot Datenservice GmbH
Wüstenrot Reality s.r.o.
Wüstenrot InHouse Broker s. r. o.
Wüstenrot Servis, spol. s.r.o.

The Bank's statutory bodies

- members of the Supervisory Board
- members of the Board of Directors

Other related parties

- not identified

6.28.1 Transactions with the Bank's shareholders and other group companies

in thousands of EUR	31 December 2021		31 December 2020	
	Bank's shareholders	Other group undertakings	Bank's shareholders	Other group undertakings
Loan granted	0	567	0	541
Other receivables	0	1	0	1
Total assets	0	568	0	542
Financial liabilities	0	0	0	0
Other liabilities	0	173	0	158
Total liabilities	0	173	0	158

in thousands of EUR	31 December 2021		31 December 2020	
	Bank's shareholders	Other group undertakings	Bank's shareholders	Other group undertakings
Interest income	0	23	0	22
Other operating income	0	323	0	270
Total income	0	346	0	292
Financial expenses	0	0	0	0
General operating expenses	2	1,052	2	970
Total expenses	2	1,052	2	970

The Bank uses banking and accounting software developed by Wüstenrot Datenservice GmbH. As at 31 December 2021, software amortization charges amounted to EUR 373 thousand (31 December 2020: EUR 279 thousand), the net book value of software totalled EUR 1,010 thousand (31 December 2020: EUR 1,230 thousand), and no WDS software was derecognized (net book value of software derecognized at 31 December 2020: EUR 44 thousand). Software maintenance and lease account for the largest portion of operating expenses in related party transactions.

6.28.2 Transactions with statutory bodies

in thousands of EUR	31 December 2021	31 December 2020
Deposits received	7	141
Total liabilities	7	141

in thousands of EUR	31 December 2021	31 December 2020
Wages and salaries	238	221
Mandatory social and health insurance contributions	54	52
Total cost	292	273

As at 31 December 2021, the Bank set up a short-term provision of EUR 104 thousand for remuneration of BoD members for the performance of their function (31 December 2020: EUR 78,000).

As at 31 December 2021, the Bank's cost of accommodation for the board of directors members totalled 6 thousand (31 December 2020: EUR 6 thousand).

6.29 Contingent liabilities and loan commitments

The Bank creates up a provision for lawsuits against the Bank, which are mainly brought by former employees and advisers (Section 6.12 of the Notes).

Based on the approved loan agreements, the Bank reports loan commitments totalling EUR 6,610 thousand at 31 December 2021 (31 December 2020: EUR 7,090 thousand).

The Bank also has contingent loan commitments. By concluding a building savings contract, clients are entitled to be granted a building society loan if they meet the specified conditions, which are primarily the minimum savings period, saving the minimum required amount, and providing evidence of creditworthiness. If all building society savers exercised this option, met the conditions set (including evidence of creditworthiness), and requested the Bank to provide a building society loan in the future, the total amount of such building society loans is a maximum of EUR 300,062 thousand (2020: EUR 393,215 thousand). The deposits in these accounts would have to be in the same amount, i.e. EUR 300,062 thousand (the simulation parameter is 50%).

Taxation

Many areas of Slovak tax law (such as transfer-pricing regulations) have not been sufficiently tested in practice, so there is uncertainty as to how the tax authorities will apply them. The extent of this uncertainty cannot be quantified. This uncertainty will only be reduced when legal precedents or official interpretations are available. Company management is not aware of any circumstances that could give rise to a future material expense in this respect.

6.30 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If market prices are available (in this case, in particular for securities traded on a stock exchange and in functioning markets), an estimate of fair value is made on the basis of market prices. All other financial instruments were measured on the basis of internal valuation models, including present value models, or the opinion of an external expert was used.

The fair values and the carrying amounts of financial instruments are disclosed in the following table:

31 December 2021

in thousands of EUR	Note	At amortized cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	6.1	1,561	0	1,561	0	1,561	0	1,561
Investments in debt securities	6.2	17,401	42,113	59,514	56,664	4,170	0	60,834
Receivables from clients	6.3	337,030	0	337,030	0	0	427,718	427,718
Other financial assets	6.8	26	0	26	0	26	0	26
Total financial assets		356,018	42,113	398,131	56,664	5,757	427,718	491,129
Financial liabilities								
Liabilities to clients	6.9	312,974	0	312,974	0	319,030	0	319,030
Liabilities to banks	6.10	46,990	0	46,990	0	46,990	0	46,990
Other financial liabilities	6.15	421	0	421	0	421	0	421
Total financial liabilities		360,385	0	360,385	0	366,441	0	366,441

As at 31 December 2021, the Bank changed the recognition of cash and cash equivalents at fair value from Level 2 to Level 1 (31 December 2020: Level 2).

31 December 2020

in thousands of EUR	Note	At amortized cost	At fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Cash and cash equivalents	6.1	448	0	448	0	448	0	448
Investments in debt securities	6.2	17,489	47,079	64,568	61,990	4,291	0	66,281
Receivables from clients	6.3	369,045	0	369,045	0	0	461,649	461,649
Other financial assets	6.8	33	0	33	0	33	0	33
Total financial assets		387,015	47,079	434,094	61,990	4,772	461,649	528,411
Financial liabilities								
Liabilities to clients	6.9	382,235	0	382,235	0	394,141	0	394,141
Liabilities to banks	6.10	10,898	0	10,898	0	10,898	0	10,898
Other financial liabilities	6.15	976	0	976	0	976	0	976
Total financial liabilities		394,109	0	394,109	0	406,015	0	406,015

The following methods and assumptions were used in estimating the fair values of the Bank's financial assets and liabilities:

Investments in debt securities

The fair value of investments in debt securities is determined using quoted market prices or theoretical prices by discounting future cash flows at the interbank market reference interest rate for the relevant term of the instrument.

For securities (government bonds) which were traded on the Bratislava Stock Exchange in the period not more than 1 month before 31 December 2021 and 31 December 2020, the price of the last trade was used.

The Bloomberg price is used to determine the market price of a financial instrument. If such a price is not available, the theoretical price of the security is determined by using the method of calculating the present value of future expected payments by discounting the yields to maturity derived from the relevant government bond market yield curve adjusted for a risk premium. The yield curve is drawn from yield values to maturity for debt securities with different remaining maturities. The other points of this market yield curve corresponding to the remaining maturities of debt securities for which no yield to maturity exists are determined by linear interpolation.

Receivables from clients

Receivables from clients are stated at net value, i.e. less credit loss allowance. For accounts with a remaining maturity of less than three months, it is appropriate to consider their carrying amount to be the approximate fair value. The fair values of other receivables from clients are calculated by discounting future cash flows using current market rates and estimated risk margins.

Liabilities to clients

The fair values of current accounts with a remaining maturity of less than three months are approximately equal to their carrying amounts. The fair values of other liabilities to customers are calculated by discounting future cash flows using current deposit interest rates.

Interest rates used in converting financial instruments to their fair value:

in %	31 December 2021	31 December 2020
Receivables from clients		
- interim loans	1.10	1.20
- building society loans	1.01	1.15
Liabilities to clients	0.95	1.00

6.31 Significant events after the reporting date

After 31 December 2021, no other events have occurred until the date on which these financial statements have been approved that would require an adjustment or recognition in these financial statements.

After the end of 2021, political tensions in the region escalated into a war between the Russian Federation and Ukraine. This conflict has severely affected global events, adversely impacted commodity prices and financial markets, and attributed to increased volatility within the business environment. The situation remains very unstable, and the impact of imposed sanctions, restrictions on the business activities of companies operating in the region, and the consequences for the economic environment as a whole (primarily restrictions on supply chains) can be expected. However, the extent of the consequences of these events on the Company cannot currently be fully anticipated.

No significant direct effects on the Bank have been identified. The Bank has no direct exposures to Russia, Belarus, or Ukraine. The Bank is continually monitoring the situation and assesses its impacts on the economic environment. The Bank does not expect any significant adverse impacts on its economic situation.

Bratislava, 28 April 2022

Signatures of the members of the Bank's statutory body:

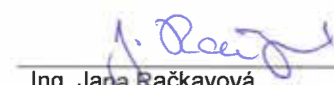


 Ing. Marián Hrotka, PhD.
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 Wüstenrot stavebná sporiteľňa, a.s.



 Mag. Christian Sollinger, CIIA
 Member of the Board of Directors
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Person responsible for bookkeeping and preparation of the financial statements:



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