Poštová banka, a. s.

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

for the year ended 31 December 2019
(English translation)

Contents

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Management Board of Poštová banka, a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Poštová banka, a.s. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section. We are independent of the Group in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2019: € 2,459,382 thousand; impairment loss recognised in 2019: € 32,637 thousand; total impairment loss as at 31 December 2019: € 207,721 thousand.

Refer to Note 3 (Significant accounting policies), Note 9 (Financial assets at amortised cost: Loans and advances) and Note 31 (Impairment losses and provisions: Financial assets at amortised cost - Loans and advances) to the consolidated financial statements.

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the	Our audit procedures in this area included, among others:

expected credit losses within Financial assets at amortized cost at the reporting date. We focused on this area as the determination of impairment allowances requires significant judgment from the Management Board over both the timing of recognition and the amount of any such impairment.

Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below € 300 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, forward-looking information, identification of exposures with a significant deterioration in credit quality are incorporated into the model assumptions.

For exposures exceeding € 300 thousand individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis.

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

- Inspecting the Group's ECL impairment provisioning methodology and challenging the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;

- Making relevant inquiries of the Group's risk management, internal audit and information technology (IT) personnel in order to update our understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Group's IT control environment for data security and access, assisted by our own IT specialists;

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

- Assessing whether the definition of default and the financial instruments standard's staging criteria were consistently applied. Also assessing whether the definition of default applied for each segment/portfolio is appropriate based on the requirements of the Standard (e.g. taking into account the 90-day presumption);

- Challenging LGD and PD parameters used by the Group, by reference to historically realized losses on defaults.

- Inspecting the Group´s macroeconomic forecasts and other forward-looking information applied in the ECL calculation by reference to corroborating inquiries of the Management Board and inspecting publicly available information;

- For a sample of individual exposures, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2019;

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	• For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation and collateral values.

Measurement of securities held at fair value

The carrying amount of securities held at fair value as at 31 December 2019: € 837,440 thousand; change in fair value recognized in profit or loss for the year ended 31 December 2019: € 16,887 thousand; negative change in fair value recognized in other comprehensive income for the year ended 31 December 2019: € (363) thousand.

Refer to Note 3 (Significant accounting policies), Note 7 (Non-trading financial assets mandatorily at fair value through profit or loss), Note 8 (Financial assets at fair value through other comprehensive income) and Note 25 (Net gains/(losses) from financial transactions) to the consolidated financial statements.

Key audit matter	Our response
Securities held at fair value include primarily debt and equity securities within the portfolios of non-trading financial assets mandatorily at fair value through profit or loss and financial assets at fair value through other comprehensive income. For the majority of the securities held, their respective fair values are based on quoted prices of identical or similar instruments, while valuation techniques using market observable and unobservable inputs were applied for the remaining bonds and shares, and for investments in funds. In connection with the said valuations, there is a risk that the underlying markets for the instruments are not sufficiently active or that the transaction prices do not represent the fair value of the financial instruments at the measurement date. Due to the magnitude of the amounts involved, as well as the complexity involved and judgment required in measuring certain of these instruments, their valuation was a key area of focus during our audit.	Our audit procedures included, among others: • Testing the design, implementation and operating effectiveness of selected key controls over the measurement of financial instruments and management's oversight over the valuation process; • Independently assessing the Group´s assignment of financial instruments into fair value hierarchy levels, considering underlying market activity, including volume traded and number of executable quotes, and assessment of bid-ask spread of those quotes; • Testing the Group's market-based valuations of financial instruments by comparing these amounts to independently sourced publicly available quoted prices; • For more judgmental valuations, based on inputs other than quoted prices, evaluating the assumptions, methodologies and models used by the Group, considering the requirements of the relevant financial reporting standards, and also, for on a sample basis, performing an independent valuation, assisted by our own valuation specialists; and • Evaluating the overall reasonableness of the Group's valuations by examining gains and losses on disposals and other events and transactions which could provide corroborating evidence about the accuracy of the past valuations.

Responsibilities of the Management Board and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Consolidated Annual Report

The Management Board is responsible for the information in the consolidated annual report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the consolidated financial statements does not cover other information in the consolidated annual report.

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

The consolidated annual report was not available to us as of the date of this auditors' report.

When we obtain the consolidated annual report, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the consolidated financial statements, we will express an opinion as to whether:

- the information given in the consolidated annual report for the year 2019 is consistent with the consolidated financial statements prepared for the same financial year; and

- the consolidated annual report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the consolidated annual report in light of the knowledge and understanding of the Group and its environment that we have acquired during the course of the audit of the consolidated financial statements.

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

Appointment and approval of an auditor

We have been appointed as statutory auditor by the Management Board of the Bank on 17 July 2019 on the basis of approval by the General Meeting of the Bank on 20 June 2017. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is seventeen years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

11 March 2020
Bratislava, Slovak Republic

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

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

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

A. Consolidated statement of financial position

EUR'000	Notes	31.12.2019	31.12.2018
Assets			
Cash, cash balances at central banks and other demand deposits	5	356,934	306,566
Financial assets held for trading	6	1,021	1,799
Non-trading financial assets mandatorily at fair value through profit or loss	7	292,908	244,691
Financial assets at fair value through other comprehensive income	8	544,532	508,895
Financial assets at amortised cost	9	3,072,247	3,151,637
Debt securities	*9*	*537,634*	*429,190*
Loans and advances	*9*	*2,482,481*	*2,668,296*
thereof: Loans and advances to banks	9	23,099	174,987
thereof: Loans and advances to customers	9	2,459,382	2,493,309
Other financial assets	*9*	*52,132*	*54,151*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,965	869
Investments in subsidiaries, joint ventures and associates	11	1,073	868
Tangible assets	12	49,073	20,649
Intangible assets	13	46,538	41,265
Current tax assets		1,837	690
Deferred tax assets	14	18,970	18,505
Other assets	15	24,158	18,956
TOTAL ASSETS		**4,411,256**	**4,315,390**
Liabilities			
Financial liabilities held for trading	6	3,968	469
Financial liabilities at amortised cost	16	3,709,554	3,626,101
Deposits	*16*	*3,659,745*	*3,602,516*
Other financial liabilities	*16*	*49,809*	*23,585*
Derivatives – Hedge accounting	10	9,420	5,607
Provisions	17	26,019	24,042
Current tax liabilities		872	3,813
Other liabilities	18	18,923	13,365
Total liabilities		**3,768,756**	**3,673,397**
Total equity	**19**	**642,500**	**641,993**
TOTAL EQUITY AND LIABILITIES		**4,411,256**	**4,315,390**

These consolidated financial statements, which include the notes on pages 13-65, were approved by the Board of Directors on 11 March 2020.

Chairman of the Board of Directors	Member of the Board of Directors
Andrej Zaťko	Zuzana Žemlová

B. Consolidated statement of comprehensive income

EUR'000	Notes	2019	2018
Statement of profit or loss			
Net interest income	22	168,339	171,805
Net fee and commission income	23	39,169	39,663
Dividend income	24	191	8
Net gains/(losses) from financial transactions	25	8,420	366
Net other operating expenses	26	(4,857)	649
Administrative expenses	27	(108,279)	(98,920)
Depreciation	28	(20,515)	(13,056)
Net earned premium	29	16,208	15,122
Claim costs	30	(6,729)	(6,545)
Operating profit before impairment losses and provisions		**91,947**	**109,092**
Release/(creation) of provisions	31	729	1,899
Net impairment of financial assets not valued at fair value through profit and loss	31	(37,980)	(38,016)
Net impairment on non-financial assets	31	142	75
Share of the profit of investments in joint ventures and associates	11	170	42
Profit before tax		**55,008**	**73,092**
Income tax	32	(17,089)	(18,784)
Profit after tax		**37,919**	**54,308**
Attributable to equity holders of the parent		37,930	53,844
Attributable to non-controlling interest		(11)	464

Statement of other comprehensive income			
Items that may be reclassified to profit or loss		(2,439)	(1,083)
Revaluation of debt securities at fair value through other comprehensive income		*(1,220)*	*(2,752)*
Impairment losses for debt securities at fair value through other comprehensive income		*143*	*185*
Revaluation of hedging instruments		*(2,027)*	*1,469*
Deferred tax related to items that may be reclassified to profit or loss		*648*	*52*
Foreign currency translation		*17*	*(37)*
Items that may not be reclassified to profit or loss		665	199
Revaluation of equity instruments at fair value through other comprehensive income		*857*	*243*
Deferred tax related to items that may not be reclassified to profit or loss		*(192)*	*(44)*
Total other comprehensive income		**(1,774)**	**(884)**

TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**36,145**	**53,424**
Attributable to equity holders of the parent		36,176	52,989
Attributable to non-controlling interest		(31)	435

Earnings per share			
Profit after tax attributable to equity holders of the parent		37,930	53,844
Number of issued shares		330,899	330,899
Earnings per share in EUR		**115**	**163**

The notes on pages 13-65 are an integral part of these consolidated financial statements.

C. Consolidated statement of changes in equity

EUR'000	Share capital	Share premium	Legal reserve and other funds	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	EQUITY ATTRIB. TO OWNERS OF THE PARENT	Non-controlling interests	TOTAL EQUITY
Opening balance as of 1 January 2019	**366,305**	**738**	**51,771**	**8,962**	**(10)**	**210,681**	**638,447**	**3,546**	**641,993**
Total comprehensive income	**-**	**-**	**-**	**(1,771)**	**17**	**37,930**	**36,176**	**(31)**	**36,145**
Profit after tax	-	-	-	-	-	37,930	37,930	(11)	37,919
Items that may be reclassified to profit or loss	-	-	-	(2,436)	17	-	(2,419)	(20)	(2,439)
Items that may not be reclassified to profit or loss	-	-	-	665	-	-	665	-	665
Other transactions	**-**	**-**	**4,224**	**-**	**-**	**(40,549)**	**(36,325)**	**687**	**(35,638)**
Transfer to legal reserve fund	-	-	4,224	-	-	(5,370)	(1,146)	1,146	-
Dividends	-	-	-	-	-	(35,276)	(35,276)	(394)	(35,670)
Other	-	-	-	-	-	97	97	(65)	32
Closing balance as of 31 December 2019	**366,305**	**738**	**55,995**	**7,191**	**7**	**208,062**	**638,298**	**4,202**	**642,500**

EUR'000	Share capital	Share premium	Legal reserve and other funds	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	EQUITY ATTRIB. TO OWNERS OF THE PARENT	Non-controlling interests	TOTAL EQUITY
Opening balance as of 1 January 2018	**366,305**	**738**	**46,818**	**13,729**	**27**	**214,271**	**641,888**	**3,478**	**645,366**
Changes on initial application of IFRS 9	**-**	**-**	**-**	**(3,949)**	**-**	**(28,390)**	**(32,339)**	**-**	**(32,339)**
Expected credit losses	-	-	-	890	-	(33,229)	(32,339)	-	(32,339)
Reclassification	-	-	-	(4,839)	-	4,839	-	-	-
Restated opening balance as of 1 January 2018	**366,305**	**738**	**46,818**	**9,780**	**27**	**185,881**	**609,549**	**3,478**	**613,027**
Total comprehensive income	**-**	**-**	**-**	**(818)**	**(37)**	**53,844**	**52,989**	**435**	**53,424**
Profit after tax	-	-	-	-	-	53,844	53,844	464	54,308
Items that may be reclassified to profit or loss	-	-	-	(1,017)	(37)	-	(1,054)	(29)	(1,083)
Items that may not be reclassified to profit or loss	-	-	-	199	-	-	199	-	199
Other transactions	**-**	**-**	**4,953**	**-**	**-**	**(29,044)**	**(24,091)**	**(367)**	**(24,458)**
Transfer to legal reserve fund	-	-	4,953	-	-	(5,101)	(148)	148	-
Dividends	-	-	-	-	-	(23,943)	(23,943)	(402)	(24,345)
Other	-	-	-	-	-	-	-	(113)	(113)
Closing balance as of 31 December 2018	**366,305**	**738**	**51,771**	**8,962**	**(10)**	**210,681**	**638,447**	**3,546**	**641,993**

The notes on pages 13-65 are an integral part of these consolidated financial statements.

D. Consolidated statement of cash-flows

EUR'000	Notes	31.12.2019	31.12.2018
Profit before tax		**55,008**	**73,092**
Adjustments:		-	
Net interest income		(168,339)	(171,805)
Dividend income		(191)	(8)
Depreciation		20,515	13,056
Release/(creation) of provisions		(729)	(1,899)
Creation of insurance provisions		2,835	3,090
Gains/(losses) on derecognition of non-financial assets, net		(372)	(139)
Net impairment of financial assets not valued at fair value through profit and loss		37,980	38,016
Net impairment on non-financial assets		(142)	(75)
Share of profit in jointly controlled entities and associates		(170)	(42)
Cash flows from/(used in) operating activities before changes in working capital		**(53,605)**	**(46,714)**
(Increase)/decrease in operating assets:		-	
Cash balances at central banks		(23,653)	(239,170)
Financial assets held for trading		778	(588)
Non-trading financial assets mandatorily at fair value through profit or loss		(48,217)	(64,570)
Financial assets designated at fair value through profit or loss		-	2,960
Financial assets at fair value through other comprehensive income		(42,412)	98,267
Financial assets at amortised cost		140,076	193,934
Loans and advances		*137,150*	*183,822*
Other financial assets		*2,926*	*10,112*
Other assets		(5,202)	(1,050)
Increase/(decrease) in operating liabilities:		-	
Financial liabilities held for trading		3,499	(5,377)
Financial liabilities measured at amortised cost, excl. sub-debt, received loans and lease liabilities		65,914	(10,405)
Deposits		*65,744*	*(1,996)*
Other financial liabilities		*170*	*(8,409)*
Derivatives – Hedge accounting		3,813	1,869
Other liabilities		5,558	(2,748)
Cash flows from operating activities before interest and income tax		**46,549**	**(73,592)**
Interest received		186,149	169,169
Interest paid		(7,675)	(24,557)
Income tax paid		(21,186)	(15,368)
Net cash flows from/(used in) operating activities		***203,837***	***55,652***
Cash flows from investing activities			
Financial assets at amortised cost - debt securities		-	
Purchase		(206,475)	(58,910)
Proceeds from sale and maturity		91,727	27,768
Interest received		14,951	17,001
Tangible and intangible assets		-	
Purchase		(27,387)	(22,408)
Proceeds from sale		1,750	290
Net cash flows from/(used in) investing activities		***(125,434)***	***(36,259)***
Cash flows from financing activities			
Dividends paid		-	-
Owners of the parent		(34,882)	(23,893)
Non-controlling interests		(394)	(402)
Financial liabilities at amortised cost - subordinated debt		-	
Interest paid		(481)	(427)
Financial liabilities at amortised cost - received loans		-	
Interest received		3,394	9,785
Loan repayments		(13,232)	(5,313)
Interest paid		(377)	(396)
Financial liabilities at amortised cost - lease liabilities			
Lease payments		(5,312)	x
Interest expense		(398)	x
Net cash flows from/(used in) financing activities		***(51,682)***	***(20,646)***
Net increase/(decrease) in cash and cash equivalents	5	**26,721**	**(1,253)**
Cash and cash equivalents at the beginning of the period	5	**46,514**	**47,767**
Cash and cash equivalents at the end of the period	5	**73,235**	**46,514**

The notes on pages 13-65 are an integral part of these consolidated financial statements.

E. Notes to the consolidated financial statements

1. General information

Poštová banka, a. s. (‘*the Bank*’) was incorporated in the Commercial Register on 31 December 1992 and commenced its activities on 1 January 1993. The registered office of the Bank is Dvořákovo nábrežie 4, 811 02 Bratislava. The Bank’s identification (‘*IČO*’) is 31340890, tax (‘*DIČ*’) is 2020294221 and value added tax (‘*IČ DPH*’) number is SK7020000680. The Bank is registered as a VAT member of Poštová banka Group.

Consolidated financial statements are the financial statements of the Bank and its subsidiaries, joint ventures and associates (‘*the Group*’).

The principal activities of the Group are as follows:

- Accepting and providing deposits in euro and in foreign currencies
- Providing loans and guarantees in euro and foreign currencies
- Providing banking services to the public
- Providing services on the capital market
- Provision of investment services
- Managing pension funds
- Provision of life and non-life insurance services
- Leasing, rental and factoring services

The shareholder’s structure is as follows:

Name of shareholder	Address	31 December 2019		31 December 2018	
		Number of shares	Ownership in %	Number of shares	Ownership in %
J&T FINANCE GROUP SE	Pobřežní 297/14, 186 00 Prague, Czech republic	213,288	64.45%	213,288	64.45%
PBI, a.s. (subsidiary of J&T FINANCE GROUP SE)	Sokolovská 394/17, 186 00 Prague, Czech republic	112,506	34.00%	112,506	34.00%
Slovenská pošta, a.s.	Partizánska cesta 9, 975 99 Banská Bystrica, Slovak republic	4,918	1.49%	4,918	1.49%
Ministerstvo dopravy a výstavby Slovenskej republiky	Námestie slobody 6, 810 05 Bratislava, Slovak republic	100	0.03%	100	0.03%
UNIQA Versicherungen AG	Untere Donaustrasse 21, 1029 Vienna, Austria	87	0.03%	87	0.03%
Total		**330,899**	**100.00%**	**330,899**	**100.00%**

Members of the Board of Directors	
Andrej Zaťko	Chairman
Peter Hajko	Board member
Zuzana Žemlová	Board member

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

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by the Board of Directors on 13 March 2019.

The Group’s financial statements are included in the consolidated financial statements of J&T FINANCE GROUP SE, Pobřežní 297/14, 186 00 Prague, Czech Republic. The consolidated financial statements are available at the registered office of J&T FINANCE GROUP SE.

2. Basis of preparation of the consolidated financial statements

(a) Statement of compliance

Financial statements have been prepared in accordance with International Financial Reporting Standards (‘*IFRS*’) as adopted by the European Union.

These financial statements are prepared as consolidated financial statements under Section 22 of the Slovak Act on Accounting 431/2002, as amended.

(b) Basis of preparation of the financial statements

These financial statements have been prepared on the historical cost basis, except for the following financial assets and liabilities which are measured at fair value:

- Financial assets and liabilities held for trading
- Non-trading financial assets mandatorily at fair value through profit or loss (‘*FVPL*’)
- Financial assets and liabilities designated at FVPL
- Financial assets at fair value through other comprehensive income (‘*FVOCI*’)
- Hedging derivatives

(c) Going concern assumption

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

(d) Functional and presentation currencies

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

(e) Subsidiaries, jointly controlled entities and associates

As at 31 December 2019 the Bank held shares in the following subsidiaries, joint ventures and associates:

Company name	Activity	Ownership in %
Subsidiaries		
Prvá penzijná správcovská spoločnosť Poštovej banky, správ. spol., a. s.	Asset management	100.00%
Poštová poisťovňa, a.s.	Insurance	80.00%
Dôchodková správcovská spoločnosť Poštovej banky, d. s. s., a. s.	Management of pension funds	100.00%
Amico Finance, a.s.	Consumer loans	95.00%
PB Servis, a. s.	Real estate administration	100.00%
PB Finančné služby, a.s	Financial and operational leasing and factoring	100.00%
PB PARTNER, a. s. v likvidácii	Financial intermediary	100.00%
365.fintech, a.s.	Investment fund	100.00%
365.world, o.p.f.	Investment services	100.00%
NADÁCIA POŠTOVEJ BANKY	Charitable foundation	x
Joint ventures		
SPPS, a.s.	Payment services	40.00%
Associates		
ART FOND – Stredoeurópsky fond súčasného umenia, a.s	Art and sales	37.13%

NADÁCIA POŠTOVEJ BANKY is not included in the consolidated financial statements of Poštová banka, a.s.

The Bank includes the capital fund 365.world, o.p.f. into the consolidated financial statement, in accordance with IFRS 10, and therefore the fund is presented as a subsidiary.

3. Accounting policies

3.1 Changes in accounting policies

On 1 January 2019, the Group adopted IFRS 16 which supersedes IAS 17 Leases and related interpretations. The new standard eliminates the current dual accounting model for lessees. Instead, companies show most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, the lessee recognises a right-of-use asset, which conveys the right to control the use of an identified asset, and a lease liability, that represents an obligation to make lease payments. The Standard introduces limited scope exceptions for short-term leases, and leases with a low value of the underlying asset.

In addition, the nature of expenses related to lease contracts will change, because IFRS 16 replaces linear expenses from operating lease contracts with depreciation charge for right-of-use assets, and an interest expense on the lease liabilities. The adoption of the new standard does not have a material impact on the lessor`s accounting. The distinction between finance and operating lease will be retained by the lessor.

The Group initially applied IFRS 16 using the modified retrospective approach, which requires the cumulative impact of applying IFRS 16 to be accounted for as an adjustment to equity without restatement of comparative periods. However, the Group initially adopted a simplified approach and accounted the right-of-use assets in the same amount as lease liability, i.e. with no impact on equity. As the Group applied the modified retrospective approach, the comparative data are not restated and are recognised in line with IAS 17 and IFRIC 4.

The table below summarises the impact of IFRS 16 as at 1 January 2019:

IFRS 16	**EUR'000**
Right of use assets	24,443
Lease liabilities	24,443

The application of other accounting standards since 1 January 2019 had no significant impact on the financial statements of the Group.

3.2 Significant accounting policies

These consolidated financial statements do not include segment reporting, as the Group does not fulfil the criteria under *IFRS 8 Operating segments* for reporting of detailed segment reporting.

(a) Basis for consolidation

Consolidated financial statements include the financial statements of the Bank and its subsidiaries and jointly controlled entities.

IFRS 12 requires disclosure of significant judgments and assumptions made in determining the nature of a company's shareholding or arrangement, interests in subsidiaries, joint ventures and associates, and in non-consolidated structured units. On the basis of the prepared analysis, the Group does not have investments in consolidated structured units or in non-consolidated structured companies.

Joint ventures are those entities in which the Bank has a material impact on financial and operating policies, but is not controlled or controlled jointly by them. A joint venture is an agreement in which the bank has joint control, through which it has the right to net assets of the agreement, and not the right to assets and responsibility for the liabilities under this agreement.

i. *Business combinations*

In case of business combinations in which the Group acquires control, the acquisition method is applied. The consideration transferred in the acquisition is generally measured at fair value, similar to the net assets acquired. Reported goodwill is tested for impairment on an annual basis. Profit from a bargain purchase is recognised in the profit or loss statement immediately. Procurement costs (transaction costs) are recognised as an expense in the period in which they arise, excluding costs relating to the issue of debt securities and equity securities.

Part of the consideration given is not the amount that relates to the settlement of relationships existing before the business combination. These amounts are recognised in the income statement.

The contingent consideration is measured at fair value at the acquisition date. If the obligation to pay a contingent consideration exisits, which meets the definition of a financial instrument classified as equity, the contingent consideration is not remeasured and its settlement is recognised in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii. *Subsidiaries*

Subsidiaries are entities which are controlled by a group. The Group controls an entity when it is exposed to, or is entitled to, a variable return on its exposure to that entity, and is able to influence that return by its authority over that entity. Subsidiaries' financial statements are included in the consolidated financial statements, from the date of control to the loss of control date.

iii. *Minority interests (non-controlling interests)*

Minority interests are measured at the proportion of the identifiable net assets of the entity procured at the date of acquisition. Changes in the Group's interests in the subsidiary, which do not result in the loss of control, are recognised in equity.

iv. *Loss of control*

If the Group loses control, it derecognises the assets and liabilities of the subsidiary, related non-controlling interests, and other equity. Profit or loss that arises from the loss of control is recognised in profit or loss. If the Group retains non-controlling interest in the former subsidiary, it is measured at fair value at the date when the control is lost.

v. *Transactions eliminated from consolidation*

Account balances and intragroup transactions, as well as any unrealised income, and expenses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains on transactions with equity-settled entities are eliminated against investments in these entities, up to the Group's share in these entities. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment of the investment.

vi. *Method of consolidation*

The Bank assessed its shares and control in subsidiaries, jointly controlled entities and associates, in accordance with IFRS 10, IFRS 11 and IFRS 12. Subsidiaries are consolidated using the full consolidation method. The joint venture and the associate are consolidated in accordance with IFRS 11 by the equivalence method.

Company name	Share in %		Method of consolidation
	31.12.2019	31.12.2018	
Subsidiaries			
Prvá penzijná správcovská spoločnosť Poštovej banky, správ. spol., a. s.	100.00%	100.00%	full consolidation
Poštová poisťovňa, a.s.	80.00%	80.00%	full consolidation
Dôchodková správcovská spoločnosť Poštovej banky, d. s. s., a. s.	100.00%	100.00%	full consolidation
Amico Finance, a.s.	95.00%	95.00%	full consolidation
PB Servis, a. s.	100.00%	100.00%	full consolidation
PB Finančné služby, a.s	100.00%	100.00%	full consolidation
PB PARTNER, a. s. v likvidácii	100.00%	100.00%	full consolidation
365.fintech, a.s.	100.00%	100.00%	full consolidation
365.world, o.p.f.	100.00%	100.00%	full consolidation
Joint ventures			
SPPS, a.s.	40.00%	40.00%	equity method
Associates			
ART FOND – Stredoeurópsky fond súčasného umenia, a.s	37.13%	37.13%	equity method

(b) Foreign currency

i. *Foreign currency transactions*

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

ii. *Foreign operations*

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

In the “Foreign exchange rate translation” in other comprehensive income, the gains and losses arising from financial assets and liabilities of foreign operations are recognised. The settlement of these items is not planned, and no settlement is expected in the foreseeable future. These gains and losses are treated as part of a net investment in foreign operations.

(c) Interest income and expenses

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

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

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

(d) Fee and commission income and expenses

Fee and commission income and expense which are an integral part of EIR of a financial asset or liability are included in the calculation of EIR. Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees, and syndication fees, are recognised when the related services are performed. Loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commissions relate mainly to transaction costs and service fees, which are recognised when the services are received.

(e) Net gains or losses from financial transactions

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

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

(f) Dividend income

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

(g) Lease payments (IAS 17 until 31 December 2018)

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the financial expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(h) Income tax

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

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

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

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

(i) Financial assets

i. Initial recognition

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

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

ii. Classification and subsequent measurement

The Group classifies its financial assets into the following measurement categories:
- Amortised cost (‘*AC’*)
- Fair value through profit or loss (‘*FVPL’*)
- Fair value through other comprehensive income (‘*FVOCI’*)

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depends on:

a. <u>Business model for managing assets</u>

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

The Bank evaluates the business model for asset management on a portfolio basis. Financial assets are classified into groups of products with the same characteristics in relation to cash flows.

b. <u>Cash flow characteristics of the assets</u>

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

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

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

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

- *Amortised cost*

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

(B) Financial assets at amortised cost

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

- *Fair value through profit or loss*

(A) Financial assets held for trading

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

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

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

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

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

- *Fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income

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

Equity instruments

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

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are never reclassified to profit or loss, including on disposal. Impairment losses (or reversal of impairment losses) are not reported consolidatedly from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established within *Dividend income*.

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

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

iii. Identification and measurement of credit losses

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

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

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

Note *36. Credit risk* provides more detail of how the expected credit loss allowance is measured.

iv. Derecognition

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

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

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

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

(j) Derivatives

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

Hedging derivatives

Under the Group's strategy, hedging derivatives are designed to hedge and manage selected risks. The Group has elected to adopt IFRS 9 for hedge accounting purposes.

The main Group criteria for classification of hedging derivatives are as follows:

- The relationship between hedging instrument and hedged item, in meaning of risk characteristics, function, target and strategy of hedging is formally documented at origination of the hedging transaction, together with the method that is used for assessment of effectiveness of the hedging relationship
- The relationship between hedging instrument and hedged item is formally documented at the origination of the hedging transaction and the Group expects that it will decrease the risk of the hedged item
- Hedging meets all effectiveness criteria:
    - There is an economic relationship between the hedging instrument and hedged item
    - The impact of credit risk does not take into account changes in value resulting from this economic relationship
    - The hedge ratio of the hedging relationship is that resulting from the quantity of the hedged item that the entity actually hedges, and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weighted shares of the hedged item and the hedging instrument that could create hedge ineffectiveness (whether recognised or not), that could also result in an accounting outcome that would be inconsistent with the purpose of hedge accounting

i. Fair value hedge

The Group uses financial derivatives to manage the level of risk in relation to interest rate risk. The Group uses hedging derivatives to hedge the fair value of recognised assets. In the case of micro-hedging the Group hedges the fair value of bonds with fixed coupon. In the case of macro-hedging the Group hedges the fixed interest rate loan and advances portfolio. As the purchase of bonds with fixed coupon and origination of loans and advances with fixed interest rate increases the interest rate risk of the Group, the Group enters into interest rate swaps to hedge the changes in fair value, caused by changes in risk-free interest rates, and pays a fixed and receives a floating rate. The notional and fair values of the aforementioned hedging derivatives are described in Note *10 Hedging derivatives*.

Changes in fair value without interest component (clean price) of hedging instruments are recognised in the profit or loss statement line as Net gains/(losses) from financial transactions. For micro-hedging, changes in fair value without interest component of the hedged items attributable to the hedged risk adjust the carrying amount of the hedged item, and is recognised in profit or loss as *Net gains/(losses) from financial transactions*. For macro-hedging, changes in fair value, without the interest component of the hedged items are presented separately as the *Fair value changes of the hedged items in portfolio hedge of interest rate risk* and in profit and loss are also included in *Net gains / (losses) from financial transactions.*

Interest expense and interest income from hedging instruments are presented together with interest income and expense from hedged items, in the consolidated profit and loss statement under *Net interest income*. The positive value of hedging instruments is recognised in the consolidated statement of financial position as an asset in *Derivatives - Hedge accounting*. The negative value of hedging instruments is recognised as a liability in *Derivatives – Hedge accounting.* A summary of hedging derivatives is presented in *Note 10 Hedging derivatives*.

If the derivative expires or is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised in profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

ii. Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows, attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period, as hedged cash flows affect profit or loss under the same profit and loss statement line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in periods when the hedged item affects profit or loss. These are recorded in the income or expense lines, in which the revenue or expense associated with the related hedged item is reported.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued, and the amount previously recognised in other comprehensive income remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of *Net gains/(losses) from financial transactions.*

Embedded derivatives

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as a financial asset, and applies classification and measurement accounting principles according to IFRS 9.

Otherwise, the embedded derivatives are treated as individual derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract
- A separate instrument with the same terms would meet the definition of a derivative
- The hybrid contract is not measured at fair value through profit or loss

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss, unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

(k) Tangible and intangible assets

i. Recognition and measurement

Items of tangible and intangible assets are measured at cost, less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of related equipment is capitalised as part of the cost of that asset. When separate parts of a particular asset have different useful lives, they are accounted for separately as main components of assets.

ii. Subsequent costs

The cost of replacing part of an item of tangible asset is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part of asset will flow to the Group, and its cost can be reliably measured. The costs of day-to-day maintenance of tangible assets are recognised in profit or loss as incurred.

iii. Depreciation

Depreciation and amortisation are recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible and intangible assets. Land is not depreciated. Depreciation of tangible and intangible assets commences as soon as they are put into use.

The estimated useful lives for the current and comparative periods are as follows:

Type of asset	Period	Method
Buildings	40 years	straight line
Hardware	4 -8 years	straight line
Fittings and other equipment	4-15 years	straight line
Software	individual	straight line
Other intangible assets	individual	straight line

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

iv. Goodwill

Goodwill arising in a business combination is determined as the excess of the acquisition cost of the subsidiary's share over the Group's share of the fair value of the assets, liabilities and contingent liabilities of the subsidiary. Goodwill is recognised as part of intangible assets in the statement of financial position.

Goodwill is stated at cost less impairment. Write-offs are not recognised, goodwill is tested for impairment each year and, if the goodwill is greater than the recoverable amount, the difference is recognised as a write-down in the profit and loss statement.

v. Value of business acquired ('VOBA')

Assumed rights and obligations, arising from old-age retirement savings ('*SDS'*) contracts acquired within a business combination, are measured at fair value at the acquisition. The difference between the fair value of the acquired contractual rights and obligations, and the value of the intangible assets measured under the Group's accounting principles (transaction cost accruals), is reported as intangible assets (the present value of the VOBA portfolio). VOBA will be amortised linearly over the life of the acquired contracts. The present value of the acquired active contracts portfolio is subject to the impairment test as of the date of preparation of the financial statements.

The fair value of the rights and obligations arising from the acquired SDS contracts is determined as the present value of the net future cash flows over the remaining life of the contracts. When calculating the present value of the active contracts portfolio, the best assumption estimate is used for cancelation, expenses, fees and mortality, appropriately adjusted for the risk premium.

(l) Assets acquired based on finance lease contracts (IAS 17 until 31 December 2018)

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. On initial recognition, the leased asset is measured at an amount equal to the lower of either its fair value, or the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases, and the assets are not recognised on the Group's statement of financial position.

(m) Right-of-use assets and lease liabilities (IFRS 16 since 1 January 2019)

The Group assesses whether the contract is a lease or contains a lease, according to IFRS 16, at the inception of the contract. The contract is a lease, or contains a lease, when it conveys a right to use the underlying asset for a period of time in exchange for consideration. In cases where the contract is a lease, or contains a lease, the Group accounts for each lease component relating to the contract separately from the non-lease components of the contract.

The Group as a lessee recognises initially the right-of-use asset and the lease liability. The right-of-use asset is measured at cost, which equals the initial measurement of the lease liability. On the commencement day, the Group recognises the lease liability as a present value of minimum lease payments over the lease term, which were not paid until the commencement day. The lease term is a non-cancellable period of a lease, together with periods covered by an option to extend the lease – if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease – if the lessee is reasonably certain not to exercise that option. Lease payments are discounted using the interest rate implicit in the lease in relation to the operating lease of cars, and using the incremental borrowing rate in relation to other leasing contracts, or leasing contracts containing a lease.

Right-of-use assets are depreciated evenly over the shorter of either the lease term or the useful life.

The Group uses a practical guide and portfolio approach for contracts with similar characteristics when accounting for the lease.

Right-of-use assets are represented mainly by the lease of headquarter and branch premises, office space in post offices, IT lease contracts, lease of cars, and lease of other devices. The Group applies exemptions related to short term leases, i.e. lease contracts or contracts containing a lease with a lease term of 12 months or less, and to low value leases. Lease payments are recognised evenly as an expense over the lease term.

Right-of-use assets are presented in Note *12 Tangible assets,* and lease liabilities are presented in Note *16 Financial liabilities* at amortised cost. Interest expenses relating to lease liabilitles are presented separately from depreciation relating to right-of-use assets.

(n) Impairment losses on non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows which are largely independent from other assets and groups.

Impairment losses are recognised directly in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amount of the other assets in the unit (or group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use, or its fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Financial liabilities

i. Initial recognition

The Group initially recognises deposits by banks and customers, loans received, and other financial liabilities on the date they are originated. Derivative instruments are initially recognised on the trade date, when the Group becomes the contractual party in relation to the instrument.

Financial liabilities are measured initially at fair value, including transaction costs which are directly attributable to their acquisition or issue (for items that are not valued at fair value through profit or loss).

ii. Classification and subsequent measurement

In both the current and prior periods, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading book), and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities, designated at fair value through profit or loss, are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk), and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability
- Financial guarantee contracts and loan commitments

iii. Derecognition

The Group derecognises a financial liability when its contractual obligations are fulfilled, cancelled or expire.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, if appropriate, the risks specific to the liability.

The same principles as for measurement of expected credit losses for financial instruments, are also applied for measurement of provisions for off-balance sheet exposures arising from loans and other commitments and guarantees given.

(q) Employee benefits

i. Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

ii. Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed when the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus, or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

(r) Insurance and investment contracts

Contracts where the Group accepts significant insurance risk from another party (the insured), providing compensation for the insured in case of uncertain future events with a negative impact on the inusred, are classified as insurance contracts.

i. Revenue (premium)

Gross premium written comprises the amounts of premium arising from insurance contracts due in the accounting period, regardless of whether these amounts relate fully or partially to future periods (unearned premium). Premium written includes estimates for premium from insurance contracts (with the beginning of insurance coverage in the accounting period, which may not be delivered at the end of the reporting period), and adjustments to estimates of premium written in previous years. Written premium is recognised net of bonuses and similar discounts offered on contract conclusion or renewal.

Premium from co-insurance is the proportional part of total premium from co-insurance contracts due to the Group, and is recognised as revenue.

The earned proportion of premium is recognised as revenue. Premium is earned from the date of acceptance of risk, over the coverage period, based on the pattern of risks underwritten.

ii. Unearned premium reserve

Unearned premium (*'UPR'*) comprises the portion of gross premium written, which is estimated to be earned in the following or subsequent financial years, calculated separately for each insurance contract using the daily pro rata method temporis (365 method), adjusted, if necessary, to reflect any variation in the incidence of risk during the period covered by the contract.

iii. Claim costs of non-life insurance

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year, together with adjustments to prior and current year claim provisions. Claim costs are decreased by the amount of recourses.

iv. Claim costs of life insurance

Claims include maturities, annuities, surrenders and death claims, policyholder bonuses allocated in anticipation of a bonus declaration, and claim payments from riders. Maturity and annuity claims are recognised as an expense when due for payment. Surrender claims are recognised when paid together with a release of the claim provision. Death claims and claims from riders are recognised when notified by creation of an RBNS.

v. Provision for insurance benefits

The indemnity provision is an estimate of the final costs on settling all claims arising out of claims incurred and outstanding, as at the balance sheet date, regardless of whether or not they were reported. These represent the claim payments from contracts classified as insurance contracts, investment contracts with discretionary participation feature ('*DPF*'), and claim payments from related riders. It also includes internal and external costs related to liquidation.

Unsettled claims are valued by assessing individual insured events, creating a provision for reported and unsettled claims (RBNS), a provision for incurred but not reported insured events, and taking into account internal and external predictable events, such as changes in the method of settlment of insurance claims, inflation, trends in litigation related to insured events, changes in legislation, and historical experience and trends. In case the indemnity is paid in the form of a retirement pension, the provision shall be determined by relevant actuarial procedures.

Provisions for claims (other than annuity) are not discounted.

vi. Life assurance provision

Life assurance provision represents the actuarial estimate of the Group's liabilities from traditional life insurance contracts. Life assurance provisions are calculated for each individual policy separately, using the prospective Zillmer method, taking into account all guaranteed future benefits, already allocated profit-sharing, and future Zillmer premium paid by policyholders. The provision is calculated using the same assumptions as used for the calculation of premium. Changes in the life assurance provision are recognised in the period that the change occurs.

vii. Unexpired risk provision

Provision is made for unexpired risks arising from non-life insurance contracts, where the expected value of claims and expenses attributable to the unexpired periods of contracts in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premium, and unexpired claims provisions. Unexpired risk provision is the result of a liability adequacy test in non-life insurance.

viii. Provision for premium deficiency

A liability adequacy test is performed at the reporting date. The test is performed by using actual actuarial assumptions (appropriately adjusted to include a risk margin) at the time of the test, and the discounted cash flow methodology. If such a test indicates that the initially determined life assurance provision is deficient as compared to the result of the liability adequacy test, an additional provision for premium deficiency is created as an expense in the current period.

(s) Pension saving funds

Contracts that are concluded in accordance with the Act on pension saving funds are classified as service contracts under IFRS 15. These are pension saving funds ('*PSF*') that are concluded by the subsidiary Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a.s.

Deferred acquisition costs of acquisition of PSF contracts

Transaction costs related to the acquisition of PSF contracts are deferred. Transaction costs are represented by commissions paid to intermediaries and organisers of the network of PSF brokers.

Direct transaction costs are deferred up to the amount of their expected returns from future revenues associated with these contracts. Commissions paid are recognised as deferred transaction costs. If this expense does not meet the requirements of IAS 38 (the probability that it will bring economic benefit in the future is low, or it is not directly attributable to a particular PSF contract), it is accounted for as a cost in its full amount when it occurs.

Deferred transaction costs recognised in the financial statements, and are part of the brokerage commissions for PSF contracts paid that are deferred to future periods. Deferred costs of acquisition of PSF contracts are amortised using the straight-line basis over the expected life of the contract. At the termination of the contract a one-time write-off is made. The subsidiary tests deferred transaction costs for impairment on a regular basis (as at the date of the financial statements).

(t) Offsetting

In general, financial assets and liabilities are not offset. They are presented net in the statement of financial position only when the Group has a legal right to offset the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The right to offset financial assets and financial liabilities is applicable only if it is not contingent on a future event, and is enforceable by all counterparties in the normal course of business, as well as in the event of insolvency and bankruptcy. Compensation mainly concerns supplier-customer relations, and it is booked based on offsetting supporting evidence.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions, such as in the Group's trading activity.

(u) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments were not effective for the reporting period ending 31 December 2019 and were not applied in these financial statements:

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The amendments address the issues affecting financial reporting in the period leading up to IBOR reform. They are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. All companies with hedges affected by IBOR reform are required to:

- Assume that the interest rate benchmark, on which hedged cash flows are based, is not altered as a result of IBOR reform, when assessing whether the future cash flows are highly probable. Also, for discontinued hedging relationships, the same assumption is applied for determining whether the hedged future cash flows are expected to occur
- Assess whether the economic relationship between the hedged item and the hedging instrument exists based on the assumptions that the interest rate benchmark, on which the hedged item and the hedging instrument are based, is not altered as a result of IBOR reform
- Not discontinue a hedging relationship during the period of uncertainty arising from IBOR reform, solely because the actual results of the hedge are outside the range of 80-125%
- Apply the separately identifiable requirement only at the inception of the hedging relationship. A similar exception is also provided for redesignation of hedged items in hedges where dedesignation and redesignation take place frequently – e.g. macro-hedges

The following interpretations and amended standards, not yet effective for the accounting period ended on 31 December 2019, were not applied in the financial statements:

- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture*
- *Amendments to IFRS 3 Business Combinations;*
- *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*

New standards and interpretations are not expected to have a significant impact on the financial statements when initially applied, except for IFRS 17, whose impact is analysed by the the Group.

4. Use of estimates and judgements

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

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

Expected credit losses

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

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

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

Further information about determining ECL is included in Note *36. Credit risk.*

Determining fair values

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

Further information about the amounts of financial instruments at fair value, analysed according to the valuation methodology (broken down into individual valuation levels), are included in Note *34. Fair values of financial assets and liabilities.*

Provisions on insurance contracts

Estimates, assumptions and judgments are also used by the Group in determining technical provisions on insurance contracts (mainly IBNR provisions and technical life insurance provisions). When estimating future cash flows arising from the existence of insurance contracts and investment contracts with DPF, a group of assumptions are used. It can not be guaranteed that actual development will not be significantly different from predicted development. Actual development might be significantly different from assumed development. All assumptions are estimated based on the group's own experience.

For more details on the provisions of insurance contracts and the adequacy test of these provisions, see Note *40. Insurance risk*.

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

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

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

EUR'000	31.12.2019	31.12.2018
Cash on hand	27,801	26,032
Cash balances at central banks	283,699	260,052
Other demand deposits	45,434	20,482
Total	**356,934**	**306,566**

The above mentioned financial assets are not restricted.

Cash and cash equivalents are as follows:

EUR'000	31.12.2019	31.12.2018	31.12.2017
Cash on hand	27,801	26,032	25,120
Other demand deposits	45,434	20,482	22,647
Total	**73,235**	**46,514**	**47,767**

6. Financial assets and liabilities held for trading

EUR'000	31.12.2019	31.12.2018
Financial assets held for trading		
Derivatives	**1,021**	**1,799**
Foreign exchange and gold	1,021	1,799
Total	**1,021**	**1,799**
Financial liabilities held for trading		
Derivatives	**3,968**	**469**
Foreign exchange and gold	3,968	469
Total	**3,968**	**469**

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

EUR'000	31 December 2019			31 December 2018		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives held for trading						
Foreign exchange and gold	342,052	1,021	3,968	224,544	1,799	469
Total	**342,052**	**1,021**	**3,968**	**224,544**	**1,799**	**469**

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

EUR'000	31.12.2019	31.12.2018
Equity instruments	**292,662**	**244,462**
Share certificates	292,662	244,462
Loans and advances	**246**	**229**
Total	**292,908**	**244,691**

8. Financial assets at fair value through other comprehensive income

EUR'000	31.12.2019	31.12.2018
Equity instruments	**2,892**	**1,999**
Shares	2,892	1,999
Debt securities	**541,640**	**506,896**
Central banks	-	-
General governments	333,776	286,979
Credit institutions	48,295	63,692
Other financial corporations	50,943	43,523
Non-financial corporations	108,626	112,702
Total	**544,532**	**508,895**
Impairment allowances to debt securities in OCI	(1,218)	(1,075)

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

EUR'000	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2019	**(1,075)**	**-**	**-**	**-**	**(1,075)**
Increases due to origination and acquisition	(122)	-	-	-	(122)
Decreases due to derecognition	153	-	-	-	153
Changes due to change in credit risk (net)	(169)	-	-	-	(169)
Transfers:	-	-	-	-	-
to/(from) Stage 1	*x*	-	-	-	-
to/(from) Stage 2	-	*x*	-	-	-
to/(from) Stage 3	-	-	*x*	-	-
Changes due to movements in FX rates	(5)	-	-	-	(5)
As of 31 December 2019	**(1,218)**	**-**	**-**	**-**	**(1,218)**

EUR'000	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2018	**(890)**	**-**	**-**	**-**	**(890)**
Increases due to origination and acquisition	(310)	-	-	-	(310)
Decreases due to derecognition	111	-	-	-	111
Changes due to change in credit risk (net)	28	-	-	-	28
Transfers:	-	-	-	-	-
to/(from) Stage 1	*x*	-	-	-	-
to/(from) Stage 2	-	*x*	-	-	-
to/(from) Stage 3	-	-	*x*	-	-
Changes due to movements in FX rates	(14)	-	-	-	(14)
As of 31 December 2018	**(1,075)**	**-**	**-**	**-**	**(1,075)**

9. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Amortized costs	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debt securities	**545,164**	**431,596**	**(7,530)**	**(2,406)**	**537,634**	**429,190**
Central banks	988	988	-	-	988	988
General governments	432,494	299,054	(132)	(78)	432,362	298,976
Credit institutions	30,983	10,280	(13)	-	30,970	10,280
Other financial corporations	4,302	1,672	-	-	4,302	1,672
Non-financial corporations	76,397	119,602	(7,385)	(2,328)	69,012	117,274
Loans and advances	**2,690,213**	**2,867,992**	**(207,732)**	**(199,696)**	**2,482,481**	**2,668,296**
Central banks	409	165,726	-	-	409	165,726
General governments	-	-	-	-	-	-
Credit institutions	22,701	9,281	(11)	(20)	22,690	9,261
Other financial corporations	276,549	277,423	(13,767)	(8,380)	262,782	269,043
Non-financial corporations	993,963	1,208,847	(70,735)	(82,310)	923,228	1,126,537
Households	1,396,591	1,206,715	(123,219)	(108,986)	1,273,372	1,097,729
Other financial assets	**53,326**	**56,094**	**(1,194)**	**(1,943)**	**52,132**	**54,151**
Total	**3,288,703**	**3,355,682**	**(216,456)**	**(204,045)**	**3,072,247**	**3,151,637**

Loans and advances include receivables from financial leasing:

EUR'000	31.12.2019	31.12.2018
Minimum value of leasing payments		
Receivables from leasing	8,626	6,629
Up to 1 year	3,483	*4,127*
1-5 years	4,880	*2,469*
Over 5 years	263	*33*
Unrealized income on finance leases	(780)	(458)
Present value of future lease payments	**7,846**	**6,171**
Impairment allowances	(312)	(501)
Total	**7,534**	**5,670**

EUR'000	31.12.2019	31.12.2018
Present value of future lease payments		
Receivables from leasing	7,846	6,171
Up to 1 year	*3,138*	*4,018*
1-5 years	*4,451*	*2,133*
Over 5 years	*257*	*20*
Present value of future lease payments	**7,846**	**6,171**
Impairment allowances	(312)	(501)
Total	**7,534**	**5,670**

Other financial assets comprise the following:

EUR'000	31.12.2019	31.12.2018
Other financial assets, gross	**53,326**	**56,094**
Clearing and settlement items	5,243	7,468
Cash collateral	6,805	6,678
Tax receivables	262	14
Trade receivables	6,209	6,218
Other	34,807	35,716
Impairment allowances	(1,194)	(1,943)
Total	**52,132**	**54,151**

Impairment allowances comprise the following:

EUR'000	Stage 1		Stage 2		Stage 3		POCI	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debt securities	**(145)**	**(2,406)**	**(7,385)**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-
General governments	(132)	(78)	-	-	-	-	-	-
Credit institutions	(13)	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	-	(2,328)	(7,385)	-	-	-	-	-
Loans and advances	**(26,864)**	**(24,331)**	**(22,743)**	**(26,729)**	**(140,539)**	**(148,636)**	**(17,586)**	**-**
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	(11)	(10)	-	(10)	-	-	-	-
Other financial corporations	(1,841)	(1,790)	-	-	(21)	(6,590)	(11,905)	-
Non-financial corporations	(14,419)	(9,612)	(3,838)	(4,989)	(46,809)	(67,709)	(5,669)	-
Households	(10,593)	(12,919)	(18,905)	(21,730)	(93,709)	(74,337)	(12)	-
Other financial assets	**-**	**-**	**(1,194)**	**(1,943)**	**-**	**-**	**-**	**-**
Total	**(27,009)**	**(26,737)**	**(31,322)**	**(28,672)**	**(140,539)**	**(148,636)**	**(17,586)**	**-**

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

EUR'000	Debt securities				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2019	**(2,406)**	**-**	**-**	**-**	**(2,406)**
Increases due to origination and acquisition	(51)	-	-	-	(51)
Decreases due to derecognition	64	-	-	-	64
Changes due to change in credit risk (net)	(453)	(4,684)	-	-	(5,137)
Unwinding of discount	-	-	-	-	-
Transfers:	2,701	(2,701)	-	-	-
to/(from) Stage 1	*x*	*(2,701)*	-	-	*(2,701)*
to/(from) Stage 2	*2,701*	*x*	-	-	*2,701*
to/(from) Stage 3	-	-	*x*	-	-
Other adjustments	-	-	-	-	-
As of 31 December 2019	**(145)**	**(7,385)**	**-**	**-**	**(7,530)**

EUR'000	Debt securities				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2018	**(1,328)**	**-**	**-**	**-**	**(1,328)**
Increases due to origination and acquisition	(130)	(2)	-	-	(132)
Decreases due to derecognition	65	7	-	-	72
Changes due to change in credit risk (net)	(1,013)	(5)	-	-	(1,018)
Unwinding of discount	-	-	-	-	-
Transfers:	-	-	-	-	-
to/(from) Stage 1	*x*	-	-	-	-
to/(from) Stage 2	-	*x*	-	-	-
to/(from) Stage 3	-	-	*x*	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2018	**(2,406)**	**-**	**-**	**-**	**(2,406)**

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2019	**(24,331)**	**(26,729)**	**(148,636)**	**-**	**(199,696)**
Increases due to origination and acquisition	(13,608)	-	-	(20,624)	(34,232)
Decreases due to derecognition	5,107	2,216	46,170	-	53,493
Changes due to change in credit risk (net)	12,686	(21,792)	(22,285)	3,066	(28,325)
Unwinding of discount	-	-	-	-	-
Transfers:	(6,701)	23,562	(16,861)	-	-
to/(from) Stage 1	*x*	*9,523*	*(2,822)*	-	*6,701*
to/(from) Stage 2	*(9,523)*	*x*	*(14,039)*	-	*(23,562)*
to/(from) Stage 3	*2,822*	*14,039*	*x*	-	*16,861*
Decrease in allowance account due to write-offs	-	-	1,175	-	1,175
Other adjustments	(17)	-	(102)	(28)	(147)
As of 31 December 2019	**(26,864)**	**(22,743)**	**(140,539)**	**(17,586)**	**(207,732)**

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2018	**(34,223)**	**(16,374)**	**(150,595)**	**-**	**(201,192)**
Increases due to origination and acquisition	(13,193)	(2,100)	(13,657)	-	(28,950)
Decreases due to derecognition	8,604	2,532	47,712	-	58,848
Changes due to change in credit risk (net)	9,944	(16,572)	(21,654)	-	(28,282)
Unwinding of discount	-	-	-	-	-
Transfers:	4,549	5,785	(10,334)	-	-
to/(from) Stage 1	*x*	*(5,332)*	*783*	-	*(4,549)*
to/(from) Stage 2	*5,332*	*x*	*(11,117)*	-	*(5,785)*
to/(from) Stage 3	*(783)*	*11,117*	*x*	-	*10,334*
Decrease in allowance account due to write-offs	-	-	-	-	-
Changes due to movements in FX rates	(12)	-	(108)	-	(120)
As of 31 December 2018	**(24,331)**	**(26,729)**	**(148,636)**	**-**	**(199,696)**

10. Hedging derivatives

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

The table below summarises notional and fair values of hedging derivatives. The notional amounts represent the volume of unpaid transactions at a certain point in time. They do not represent potential gain or loss relating to the market or credit risks of these transactions.

EUR'000	31 December 2019			31 December 2018		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives – Hedge accounting	**253,976**	**-**	**7,183**	**211,610**	**-**	**4,656**
Interest rate	253,976	-	7,183	211,610	-	4,656
Portfolio fair value hedges of interest rate risk	**93,400**	**-**	**2,237**	**93,400**	**-**	**951**
Total	**347,376**	**-**	**9,420**	**305,010**	**-**	**5,607**

EUR'000	2019	2018
Fair value changes of the hedging instrument	(3,074)	(1,761)
Fair value changes of the hedged item attributable to the hedged risk	3,123	1,761
Total	**49**	**-**

11. Investments in joint ventures and associates

EUR'000	SPPS		ART FOND	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Statement on financial position				
Total assets	**4,236**	**3,273**	**1,052**	**1,068**
Total liabilities	**2,529**	**2,091**	**1**	**3**
Net assets	**1,707**	**1,182**	**1,051**	**1,065**
Group share on net assets	**683**	**473**	**390**	**395**
Statement of profit or loss				
Profit before tax	**577**	**296**	**(16)**	**(42)**
Profit after tax	**439**	**144**	**(16)**	**(42)**
Total comprehensive income for the year	**439**	**144**	**(16)**	**(42)**
Group share of profit/(loss) after tax	**176**	**58**	**(6)**	**(16)**

Total share in net assets and net profit after tax:

EUR'000	31.12.2019	31.12.2018
Net assets		
Jointly controlled entity SPPS, a.s.	683	473
Associate ART FOND, a.s.	390	395
Total	**1,073**	**868**

EUR'000	2019	2018
Profit after tax		
Jointly controlled entity SPPS, a.s.	176	58
Associate ART FOND, a.s.	(6)	(16)
Total	**170**	**42**

12. Tangible assets

EUR'000	31.12.2019	31.12.2018
Tangible assets owned	23,187	20,649
Property, plant and equipment	*23,187*	*20,649*
Right of use assets	25,886	x
Total	**49,073**	**20,649**

EUR'000	Tangible assets owned					
	Land and buildings	Hardware	Fittings and other equipment	Operating lease assets	Assets not yet in use	Total
Cost						
As of 1 January 2019	19,226	10,023	16,511	2,137	1,508	49,405
Additions	-	-	-	-	10,222	10,222
Transfers	4,282	1,897	2,659	617	(9,455)	-
Disposals	(791)	(399)	(2,603)	(1,066)	(1,757)	(6,616)
As of 31 December 2019	**22,717**	**11,521**	**16,567**	**1,688**	**518**	**53,011**
Accumulated depreciation						
As of 1 January 2019	(8,184)	(7,014)	(11,363)	(1,392)	-	(27,953)
Depreciation for the year	(1,558)	(1,509)	(2,270)	(342)	-	(5,679)
Disposals	408	369	2,781	897	-	4,455
As of 31 December 2019	**(9,334)**	**(8,154)**	**(10,852)**	**(837)**	**-**	**(29,177)**
Impairment losses	**(593)**	**-**	**(53)**	**-**	**-**	**(646)**
Carrying amount as at 31.12.2019	**12,790**	**3,367**	**5,661**	**851**	**518**	**23,187**

EUR'000	Tangible assets owned					
	Land and buildings	Hardware	Fittings and other equipment	Operating lease assets	Assets not yet in use	Total
Cost						
As of 1 January 2018	17,877	8,250	16,120	2,646	1,796	46,689
Additions from business combinations	-	-	-	-	5,419	5,419
Additions	-	2	-	-	-	2
Transfers	1,758	1,920	1,918	51	(5,647)	-
Disposals	(409)	(149)	(1,527)	(560)	(60)	(2,705)
As of 31 December 2018	**19,226**	**10,023**	**16,511**	**2,137**	**1,508**	**49,405**
Accumulated depreciation						
As of 1 January 2018	(6,632)	(5,826)	(10,872)	(1,320)	-	(24,650)
Additions from business combinations	-	(2)	-	-	-	(2)
Depreciation for the year	(1,636)	(1,308)	(2,052)	(486)	-	(5,482)
Disposals	84	122	1,561	414	-	2,181
As of 31 December 2018	**(8,184)**	**(7,014)**	**(11,363)**	**(1,392)**	**-**	**(27,953)**
Impairment losses	**(791)**	**-**	**(12)**	**-**	**-**	**(803)**
Carrying amount as at 31.12.2018	**10,251**	**3,009**	**5,136**	**745**	**1,508**	**20,649**

EUR'000	Righ of use assets			
	Land and buildings	Hardware	Fittings and other equipment	Total
Cost				
As of 1 January 2019	20,801	211	3,431	24,443
Additions	879	-	680	1,559
Remeasurements	5,278	-	392	5,670
Disposals	(57)	-	(33)	(90)
As of 31 December 2019	**26,901**	**211**	**4,470**	**31,582**
Accumulated depreciation				
As of 1 January 2019	-	-	-	-
Depreciation for the year	(4,544)	(53)	(715)	(5,312)
Remeasurements	(420)	-	-	(420)
Disposals	30	-	6	36
As of 31 December 2019	**(4,934)**	**(53)**	**(709)**	**(5,696)**
Impairment losses	**-**	**-**	**-**	**-**
Carrying amount as at 31.12.2019	**21,967**	**158**	**3,761**	**25,886**

Movements on the accounts of impairment losses to tangible assets were as follows:

EUR'000	31.12.2019	31.12.2018
Opening balance as at 1 January	(803)	(878)
Net creation/(release) of impairment losses	157	75
Closing balance	**(646)**	**(803)**

The Group uses fully depreciated tangible assets with an acquisition cost as follows:

EUR'000	31.12.2019	31.12.2018
Costs of fully depreaciated tangible assets in use	10,557	10,711

The Group insures tangible assets against natural disasters, malicious damage, theft and robbery. Motor vehicles are insured through motor third party liability and casco insurance. The Group's assets are not pledged.

EUR'000	31.12.2019	31.12.2018
Insurance amount of fixed assets	45,312	24,545

13. Intangible assets

EUR'000	Goodwill	VOBA	DAC	Software	Other intangible assets	Assets not yet in use	Total
Cost							
As of 1 January 2019	11,324	3,168	2,891	60,339	248	2,428	80,398
Additions	-	-	2,192	-	-	14,973	17,165
Transfers	-	-	-	14,785	20	(14,805)	-
Disposals	-	-	(1,816)	(56)	-	(548)	(2,420)
As of 31 December 2019	**11,324**	**3,168**	**3,267**	**75,068**	**268**	**2,048**	**95,143**
Accumulated amortisation							
As of 1 January 2019	-	(2,880)	-	(33,274)	(55)	-	(36,209)
Amortisation for the year	-	(288)	-	(9,185)	(51)	-	(9,524)
Disposals	-	-	-	53	-	-	53
As of 31 December 2019	**-**	**(3,168)**	**-**	**(42,406)**	**(106)**	**-**	**(45,680)**
Impairment losses	**(2,924)**	**-**	**-**	**-**	**-**	**-**	**(2,924)**
Carrying amount as at 31.12.2019	**8,400**	**-**	**3,267**	**32,661**	**162**	**2,048**	**46,538**

EUR'000	Goodwill	VOBA	DAC	Software	Other intangible assets	Assets not yet in use	Total
Cost							
As of 1 January 2018	8,535	3,168	2,872	46,669	64	4,774	66,082
Additions	2,789	-	1,449	-	-	12,547	16,785
Additions from business combinations	-	-	-	202	-	-	202
Transfers	-	-	-	14,496	184	(14,680)	-
Disposals	-	-	(1,430)	(1,028)	-	(213)	(2,671)
As of 31 December 2018	**11,324**	**3,168**	**2,891**	**60,339**	**248**	**2,428**	**80,398**
Accumulated amortisation							
As of 1 January 2018	-	(2,502)	-	(26,864)	(31)	-	(29,397)
Additions from business combinations	-	-	-	(85)	-	-	(85)
Amortisation for the year	-	(378)	-	(7,173)	(23)	-	(7,574)
Disposals	-	-	-	848	(1)	-	847
As of 31 December 2018	**-**	**(2,880)**	**-**	**(33,274)**	**(55)**	**-**	**(36,209)**
Impairment losses	**(2,924)**	**-**	**-**	**-**	**-**	**-**	**(2,924)**
Carrying amount as at 31.12.2018	**8,400**	**288**	**2,891**	**27,065**	**193**	**2,428**	**41,265**

The Group uses fully depreciated intangible assets with an acquisition cost as follows:

EUR'000	31.12.2019	31.12.2018
Costs of fully amortized intangible assets in use	12,320	9,709

The Group tests impairment of goodwill on an annual basis, or more frequently, when events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. For the purpose of impairment testing, management considers both companies as separate units generating cash.

The recoverable amount of the subsidiaries was determined on the basis of their financial and business plans for a period of 5 years. The model calculates the present value of these cash flows by discounting using an interest rate calculated based on Capital Assets Pricing Model. Cash flows after the end of the five-year period are calculated as the present value of perpetuity with a certain expected growth rate. The discount rate used is derived from the long-term risk-free interest rate, adjusted for business risk and country risk. The Group used the following discount rates:

	31.12.2019	31.12.2018
Prvá penzijná správcovská spoločnosť Poštovej banky, správ. spol., a. s.	7.96%	7.89%
Poštová poisťovňa, a.s.	7.33%	7.60%
Amico finance, a.s.	8.15%	8.56%

14. Deferred tax assets and liabilities

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

	31.12.2019	31.12.2018
Companies in SK	21%	21%
Companies in CZ	19%	19%

EUR'000	31.12.2019	31.12.2018
SK		
Impairment allowances - financial assets at AC	16,014	16,021
Impairment allowances - financial assets at FVOCI	-	512
Provisions for off-balance sheet exposures	504	661
Financial assets at FVOCI	(1,829)	(2,286)
Tangible assets	(116)	192
Other	4,272	3,278
Total	**18,845**	**18,378**
CZ		
Provisions for off-balance sheet exposures	106	105
Tangible assets	(1)	(1)
Other	20	23
Total	**125**	**127**
Total deferred tax assets	**18,970**	**18,505**

Movements on deferred tax accounts are as follows:

EUR'000	Note	31.12.2019	31.12.2018
Opening balance as at 1 January		18,505	12,557
Through profit or loss	32	9	1,408
Through other comprehensive income		456	8
Through retained earnings		-	4,532
Closing balance as at 31 December		**18,970**	**18,505**

15. Other assets

EUR'000	31.12.2019	31.12.2018
Deferred expenses	12,403	12,536
Accrued income	866	-
Inventories	675	656
Reinsurance assets	216	254
Prepayments	9,995	5,509
Other	3	1
Total	**24,158**	**18,956**

16. Financial liabilities measured at amortised cost

EUR'000	31.12.2019	31.12.2018
Deposits	**3,659,745**	**3,602,516**
General governments	3,409	5,187
Current accounts / overnight deposits	*2,294*	*2,124*
Deposits with agreed maturity	*1,115*	*3,063*
Credit institutions	34,012	142,201
Current accounts / overnight deposits	*6,018*	*6,345*
Deposits with agreed maturity	*27,994*	*36,146*
Repurchase agreements	-	*99,710*
Other financial corporations	151,098	171,861
Current accounts / overnight deposits	*70,364*	*136,698*
Deposits with agreed maturity	*80,734*	*35,163*
Non-financial corporations	331,940	372,028
Current accounts / overnight deposits	*282,233*	*271,613*
Deposits with agreed maturity	*49,707*	*100,415*
Households	3,139,286	2,911,239
Current accounts / overnight deposits	*1,545,398*	*1,435,237*
Deposits with agreed maturity	*1,419,359*	*1,278,543*
Deposits redeemable at notice	*174,529*	*197,459*
Other financial liabilities	**49,809**	**23,585**
Clearing and settlement items	10,394	6,576
Liabilities to employees	4,809	4,566
Liabilities from social and health insurance and social fund	1,929	1,759
Tax liabilities	1,446	1,378
Received prepayments	39	11
Liabilities from dividends	28	28
Lease liabilities	26,053	x
Other creditors	5,111	9,267
Total	**3,709,554**	**3,626,101**

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

EUR'000	31.12.2019	31.12.2018
Subordinated debt	8,014	8,013
Other received loans	19,979	29,817

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

Creditor	Debtor	Carrying amount	Interest rate	Maturity
J&T BANKA, a.s.	Poštová banka, a.s.	8,014	3M EURIBOR + 6,0%	31.12.2026

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

EUR'000	Subordinated debt		Other received loans	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Opening balance as at 1 January	8,013	8,013	29,817	25,345
Loans received	-	-	3,394	9,785
Loan repayments	-	-	(13,232)	(5,313)
Interest expenses	482	427	377	396
Interest paid	(481)	(427)	(377)	(396)
Closing balance	**8,014**	**8,013**	**19,979**	**29,817**

17. Provisions

EUR'000	31.12.2019	31.12.2018
Commitments and guarantees given	2,757	3,484
Loan commitments	*2,032*	*2,861*
Guarantees given	*725*	*623*
Other commitments given	*-*	*-*
Other provisions	534	531
Insurance provisions	22,728	20,027
Life insurance	*20,722*	*17,903*
Unearned premium	*533*	*545*
Provision for claims	*1,473*	*1,579*
Total	**26,019**	**24,042**

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

EUR'000	Commitments and guarantees given				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2019	**1,182**	**801**	**1,501**	**-**	**3,484**
Increases due to origination and acquisition	1,069	-	-	-	1,069
Decreases due to derecognition	(934)	(336)	(389)	-	(1,659)
Changes due to change in credit risk (net)	221	259	(618)	-	(138)
Transfers:	29	(29)	-	-	-
(to)/from Stage 1	*x*	*(29)*	*-*	*-*	*(29)*
(to)/from Stage 2	*29*	*x*	*-*	*-*	*29*
(to)/from Stage 3	*-*	*-*	*x*	*-*	*-*
Changes due to movements in FX rates	1	-	-	-	1
As of 31 December 2019	**1,568**	**695**	**494**	**-**	**2,757**

EUR'000	Commitments and guarantees given				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2018	**1,504**	**2,243**	**2,167**	**-**	**5,914**
Increases due to origination and acquisition	1,899	1,535	48	-	3,482
Decreases due to derecognition	(1,178)	(1,632)	(1,030)	-	(3,840)
Changes due to change in credit risk (net)	(1,424)	(964)	316	-	(2,072)
Transfers:	381	(381)	-	-	-
(to)/from Stage 1	*x*	*(381)*	*-*	*-*	*(381)*
(to)/from Stage 2	*381*	*x*	*-*	*-*	*381*
(to)/from Stage 3	*-*	*-*	*x*	*-*	*-*
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2018	**1,182**	**801**	**1,501**	**-**	**3,484**

Movements in the insurance provisions were as follows:

EUR'000	Life insurance	Unearned premium	Provision for claims	Total
As of 1 January 2018	**15,124**	**521**	**1,271**	**16,916**
Additions, including increases in existing provisions	4,952	1,084	6,524	12,560
(-) Unused amounts reversed during the period	(2,173)	(1,060)	(6,216)	(9,449)
As of 31 December 2018	**17,903**	**545**	**1,579**	**20,027**
Additions, including increases in existing provisions	5,544	1,032	5,906	12,482
(-) Unused amounts reversed during the period	(2,726)	(1,044)	(6,012)	(9,782)
As of 31 December 2019	**20,722**	**533**	**1,473**	**22,728**

18. Other liabilities

EUR'000	31.12.2019	31.12.2018
Estimated payables (PEREX, OPEX)	18,183	12,410
Deferred income	416	457
Accrued expenses	324	498
Total	**18,923**	**13,365**

20. Equity

a) Share capital

	31.12.2019	31.12.2018
Nominal value per share in EUR	1,107	1,107
Number of shares	330,899	330,899
Total share capital in EUR'000	**366,305**	**366,305**

All shares of the Bank are ordinary registered shares.

b) Legal reserve fund

Under the Slovak Commercial Code, all companies are required to create a legal reserve fund to cover losses. Each entity is obliged to contribute an amount of at least 10% of its annual net profit each year, until the aggregate amount reaches a level equal to 20% of the issued share capital. The legal reserve fund is not readily distributable to shareholders.

c) Revaluation of financial instruments measured through other comprehensive income

This item includes the revaluation of FVOCI of financial assets and related hedging derivatives, which represents a net cumulative change in the fair value of FVOCI financial assets, including the effect of hedging derivatives, and taking deferred tax into account. As at 1 January 2018, in connection with the implementation of the IFRS 9 Accounting Standard, the Group also presents impairment allowances for debt securities at fair value through other comprehensive income within this equity item.

d) Translation reserve

The translation reserve comprises all foreign exchange rate differences arising from the translation of financial statements of foreign operations.

21. Off-balance sheet items

a) Loan commitments, financial guarantees and other commitments given

EUR'000	31.12.2019	31.12.2018
Loan commitments given	326,145	293,907
Financial guarantees given	27,210	26,369
Other commitments given	-	-
Total	**353,355**	**320,276**

b) Assets management and custody

EUR'000	31.12.2019	31.12.2018
Asset management	804,000	2,172,341
Custody assets	159,609	154,409
Total	**963,609**	**2,326,750**

c) Securities provided as collateral

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

EUR'000	31.12.2019	31.12.2018
Financial assets at fair value through other comprehensive income	37,424	118,508
Financial assets at amortised cost	187,260	168,525
Total	**224,684**	**287,033**

d) Transferred financial assets

The table below summarises the carrying amount of transferred financial assets, which are not derecognised in their entirety, and the carrying amount of the relating liabilities (repo agreements).

EUR'000	Carrying amount of transferred assets		Carrying amount of associated liabilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debt securities	-	106,662	-	99,710
Collateral given in repurchase agreements	**-**	**106,662**	**-**	**99,710**

22. Offsetting of financial assets and liabilities

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

31.12.2019	Values, gross	Offset values, gross	Presented values, net	Possible effect of master offsetting: Financial instruments	Possible effect of master offsetting: Cash collateral	Possible effect of master offsetting: Non-cash financial collateral	Net values after possible offsetting
Financial assets							
Derivatives	1,021	-	1,021	1,021	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Total assets	**1,021**	**-**	**1,021**	**1,021**	**-**	**-**	**-**
Financial liabilities							
Derivatives	3,968	-	3,968	1,021	2,699	-	248
Hedging derivatives	9,420	-	9,420	-	9,420	-	-
Total liabilities	**13,388**	**-**	**13,388**	**1,021**	**12,119**	**-**	**248**

31.12.2018	Values, gross	Offset values, gross	Presented values, net	Possible effect of master offsetting: Financial instruments	Possible effect of master offsetting: Cash collateral	Possible effect of master offsetting: Non-cash financial collateral	Net values after possible offsetting
Financial assets							
Derivatives	1,799	-	1,799	108	212	-	1,479
Hedging derivatives	-	-	-	-	-	-	-
Total assets	**1,799**	**-**	**1,799**	**108**	**212**	**-**	**1,479**
Financial liabilities							
Derivatives	469	-	469	108	-	-	361
Hedging derivatives	5,607	-	5,607	-	4,860	-	747
Total liabilities	**6,076**	**-**	**6,076**	**108**	**4,860**	**-**	**1,108**

23. Net interest income

EUR'000	**2019**	**2018**
Interest income		
Financial assets at fair value through other comprehensive income	8,680	9,279
Financial assets at amortised cost	171,977	172,764
Debt securities	*14,529*	*17,877*
Loans and advances	*157,448*	*154,887*
Derivatives - Hedge accounting, interest rate risk	(2,188)	(1,272)
Other assets	122	49
Cash balances at central banks	*10*	*11*
Other	*112*	*38*
Total interest income	**178,591**	**180,820**
Interest expenses		
Financial liabilities measured at amortised cost	(10,241)	(9,003)
thereof: lease liabilities	(398)	x
Other liabilities	(11)	(12)
Total interest expense	**(10,252)**	**(9,015)**
Net interest income	**168,339**	**171,805**

EUR'000	**2019**	**2018**
Interest income calculated on an EIR	180,779	182,092
Other interest income	(2,188)	(1,272)
Total interest income	**178,591**	**180,820**

24. Net fee and commission income

EUR'000	2019	2018
Fee and commission income		
Securities	57	4
Clearing and settlement	15,177	2,288
Asset management	23,730	19,992
Custody	2,423	2,032
Payment services	2,890	1,702
Loan servicing activities	2,274	2,723
Current accounts servicing activities	23,326	23,022
Loan commitments given	876	381
Financial guarantees given	323	382
Other	1,583	9,125
Total fee and commission income	**72,659**	**61,651**
Fee and commission expenses		
Clearing and settlement	(18,924)	(11,535)
Custody	(293)	(267)
Loan servicing activities	(1,594)	(2,172)
Other	(12,679)	(8,014)
Total fee and commission expenses	**(33,490)**	**(21,988)**
Net fee and commission income	**39,169**	**39,663**

25. Dividend income

EUR'000	2019	2018
Non-trading financial assets mandatorily at fair value through profit or loss	174	-
Financial assets at fair value through other comprehensive income	17	8
Total	**191**	**8**

26. Net gains/(losses) from financial transactions

EUR'000	2019	2018
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	**(1,151)**	**509**
Financial assets at fair value through other comprehensive income	(1,151)	382
Equity instruments	*(66)*	*341*
Debt securities	*(44)*	*41*
thereof: reclassified from other comprehensive income	*-*	*(14)*
Loans and advances	*(1,041)*	*-*
Financial assets at amortised cost	-	10
Debt securities	*-*	*10*
Other	-	117
Gains/(losses) on financial assets and liabilities held for trading, net	**(9,743)**	**(1,976)**
Derivatives	(9,743)	(2,270)
Equity instruments	-	294
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	**16,931**	**3,001**
Revaluation gains/(losses)	16,887	2,543
Trading gains/(losses)	44	458
Gains/(losses) on financial assets and liabilities designated at FVPL, net	**67**	**-**
Gains/(losses) from hedge accounting, net	**49**	**-**
Fair value changes of the hedging instrument	(3,074)	(1,761)
Fair value changes of the hedged item attributable to the hedged risk	3,123	1,761
Exchange differences, net	**2,267**	**(1,168)**
Total	**8,420**	**366**

27. Net other operating expenses

EUR'000	2019	2018
Bank and insurance companies specific fees	**(8,207)**	**(7,860)**
Special levy for banking institutions	(7,330)	(7,202)
Resolution fund	(288)	(310)
Deposit protection fund	(300)	(322)
Special levy for insurance companies	(289)	(26)
Other income/(expense)	**3,350**	**8,509**
Operating leases other than investment property	855	2,278
Gains/(losses) on derecognition of non-financial assets, net	372	139
Other	2,123	6,092
Total net other operating expense	**(4,857)**	**649**

28. Administrative expenses

EUR'000	2019	2018
Staff expenses	**(60,894)**	**(52,270)**
Wages and salaries (including bonuses)	(43,767)	(37,017)
Social expenses	(17,127)	(15,253)
Other administrative expenses	**(47,385)**	**(46,650)**
Rent, energies, facility services and maintenance	(6,656)	(12,138)
Short-term lease contracts	*(1,195)*	x
Leases of low-value assets	-	x
Variable lease payments not included in the lease liabilities	*(2,153)*	x
Other	*(3,308)*	x
IT expenses	(8,821)	(6,717)
Marketing and advertisement	(11,750)	(8,836)
Legal and consulting services	(3,023)	(2,531)
Post and telecommunication	(4,302)	(3,520)
Material consumption	(1,681)	(1,660)
Other administrative expenses	(11,152)	(11,248)
Total	**(108,279)**	**(98,920)**

	2019	2018
Number of employees as of balance sheet date	1,569	1,584
Average number of employees for the period	1,570	1,645
thereof, key management	48	55

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

EUR'000	2019	2018
Audit of the financial statements	(376)	(367)
Non-audit services required by EU legislation	(70)	(70)
Other assurance services	(22)	(18)
Total	**(468)**	**(455)**

29. Depreciation

EUR'000	2019	2018
Property, plant and equipment	**(5,679)**	**(5,482)**
Buildings	(1,558)	(1,636)
Hardware	(1,509)	(1,308)
Fittings and other equipment	(2,270)	(2,052)
Operating lease assets	(342)	(486)
Right of use assets	**(5,312)**	**x**
Buildings	(4,544)	x
Hardware	(53)	x
Fittings and other equipment	(715)	x
Intangible assets	**(9,524)**	**(7,574)**
VOBA	(288)	(378)
Software	(9,185)	(7,173)
Other intangible assets	(51)	(23)
Total	**(20,515)**	**(13,056)**

30. Net earned premium

EUR'000	2019	2018
Gross written premium	16,958	15,803
Written premium ceded	(756)	(671)
Change in unearned premium provision	13	(24)
Change in unearned premium provision	(7)	14
Total	**16,208**	**15,122**

31. Claim costs

EUR'000	2019	2018
Claims paid	(4,008)	(3,607)
Claims paid ceded	107	166
Change in life insurance provision	(2,818)	(2,779)
Change in claim provisions	106	(308)
Change in claim provisions ceded	(116)	(17)
Total	**(6,729)**	**(6,545)**

32. Impairment losses and provisions

EUR'000	2019	2018
Net impairment of financial assets not valued at fair value through profit or loss	**(37,980)**	**(38,016)**
Financial assets at fair value through other comprehensive income	(143)	(176)
Debt securities	*(143)*	*(176)*
Loans and advances	*-*	*-*
Financial assets at amortised cost	(37,837)	(37,840)
Debt securities	*(5,124)*	*(1,072)*
Loans and advances	*(32,637)*	*(36,842)*
Other financial assets	*(76)*	*74*
Release/(creation) of provisions	**729**	**1,899**
Net impairment on non-financial assets	**142**	**75**
Total	**(37,109)**	**(36,042)**

33. Income tax

EUR'000	2019	2018
Current income tax	**(17,098)**	**(20,192)**
Current year	(18,230)	(20,237)
Correction of prior period	1,181	682
Withholding tax	(49)	(637)
Deferred tax	**9**	**1,408**
Total	**(17,089)**	**(18,784)**

Reconciliation of the effective tax rate is as follows:

EUR'000	2019		2018	
	Tax base	Tax at 21%	Tax base	Tax at 21%
Profit before tax	55,008	11,552	73,092	15,349
Tax non-deductible items	(37,023)	(7,775)	(46,810)	(9,830)
Tax deductible items	68,823	14,453	70,085	14,718
Income tax expense before utilizing tax losses	**x**	**18,230**	**x**	**20,237**
Use of losses carried forward	x	-	x	-
Offset of tax paid abroad	x	(203)	x	(572)
Withholding tax	x	49	x	637
Tax paid abroad	x	203	x	572
Correction of previous period	x	(1,181)	x	(682)
Deferred tax	x	(9)	x	(1,408)
Total	**x**	**17,089**	**x**	**18,784**
Effective tax rate		**31.07%**		**25.70%**

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

34. Related parties transactions

Parties are considered to be related if one party has the ability to control the other party, or it has through its financial and operational decisions, significant influence over the other party. The following persons or companies meet the definition of related parties:

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

31.12.2019	Shareholders	Members of J&T FINANCE GROUP SE	Joint ventures	Associates	Key management and related parties	Others
Assets	**-**	**143,594**	**634**	**-**	**1,049**	**31,332**
Other demand deposits	-	205	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	143,326	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-
Financial assets at amortised cost	-	63	634	-	1,049	31,332
Debt securities	-	-	-	-	-	-
Loans and advances	-	*14*	-	-	*1,049*	*31,332*
Other financial assets	-	*49*	*634*	-	-	-
Liabilities	**4**	**21,165**	**2,845**	**-**	**713**	**1,661**
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities measured at amortised cost	4	21,165	2,845	-	713	1,661
Deposits	*4*	*21,161*	*2,845*	-	*713*	*1,654*
Other financial liabilities	-	*4*	-	-	-	*7*
Derivatives – Hedge accounting	-	-	-	-	-	-
Income/expenses	**-**	**-**	**-**	**-**	**-**	**-**
Net interest income	-	(473)	-	-	8	610
Net fee and commission income	(276)	75	7,105	-	1	55
Net gains/(losses) from financial transactions	-	2,110	-	-	-	-
Net other operating expenses	-	61	80	-	-	-
Administrative expenses	-	(31)	-	-	-	(207)

31.12.2018	Shareholders	Members of J&T FINANCE GROUP SE	Joint ventures	Associates	Key management and related parties	Others
Assets	**-**	**250**	**94**	**-**	**950**	**46,186**
Other demand deposits	-	209	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	-	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-
Financial assets at amortised cost	-	41	94	-	950	46,186
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	-	-	*950*	*46186*
Other financial assets	-	*41*	*94*	-	-	-
Liabilities	**4**	**15,492**	**2,177**	**-**	**600**	**1,624**
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities measured at amortised cost	4	15,492	2,177	-	600	1,624
Deposits	*4*	*15,489*	*2,177*	-	*600*	*1,624*
Other financial liabilities	-	*3*	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-

2018						
Income/expenses	**-**	**-**	**-**	**-**	**-**	**-**
Net interest income	-	177	-	-	9	1,254
Net fee and commission income	(79)	4	1,408	-	2	13
Net gains/(losses) from financial transactions	-	(1,696)	-	-	-	-
Net other operating expenses	-	14	93	-	-	-
Administrative expenses	-	(16)	-	-	(1,885)	(126)

35. Fair value of financial assets and liabilities

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

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

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

The determination of fair values for financial assets and financial liabilities is based on quoted market prices. Shares in funds are measured at prices obtained from an asset management company.

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

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

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

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

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

Even though these valuation techniques are considered to be appropriate and in compliance with market practice, the estimations in discount interest rates and changes of basic assumptions in future cash flows, may lead to different fair value of financial instruments. Transfers of financial instruments between particular levels can occur only if market activity has changed.

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

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

EUR'000	Level 1		Level 2		Level 3		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
ASSETS								
Financial assets held for trading	**-**	**-**	**1,021**	**1,799**	**-**	**-**	**1,021**	**1,799**
Derivatives	-	-	1,021	1,799	-	-	1,021	1,799
Non-trading financial assets mandatorily at FVPL	**17,605**	**7,058**	**275,303**	**237,578**	**-**	**55**	**292,908**	**244,691**
Equity instruments	17,605	7,058	275,057	237,349	-	55	292,662	244,462
Loans and advances	-	-	246	229	-	-	246	229
Financial assets at FVOCI	**433,014**	**322,126**	**2,827**	**74,001**	**108,691**	**112,768**	**544,532**	**508,895**
Equity instruments	-	-	2,827	1,934	65	65	2,892	1,999
Debt securities	433,014	322,126	-	72,067	108,626	112,703	541,640	506,896
Derivatives – Hedge accounting	-	-	-	-	-	-	-	-
Total assets	**450,619**	**329,184**	**279,151**	**313,378**	**108,691**	**112,823**	**838,461**	**755,385**

EUR'000	Level 1		Level 2		Level 3		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
LIABILITIES								
Financial liabilities held for trading	**-**	**-**	**3,968**	**469**	**-**	**-**	**3,968**	**469**
Derivatives	-	-	3,968	469	-	-	3,968	469
Derivatives – Hedge accounting	**-**	**-**	**9,420**	**5,607**	**-**	**-**	**9,420**	**5,607**
Total liabilities	**-**	**-**	**13,388**	**6,076**	**-**	**-**	**13,388**	**6,076**

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

EUR'000	31 December 2019			31 December 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Financial assets at fair value through OCI	-	-	-	-	-	-
Transfers into the category	35,096	-	-	-	-	-
Transfers out of the category	-	(35,096)	-	-	-	-
Total assets	**35,096**	**(35,096)**	**-**	**-**	**-**	**-**

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

EUR'000	1.1.2019	Gains / losses in PL	Gains / losses in OCI	Purchases	Maturities and sales	Transfers into Level 3	Transfers out Level 3	31.12.2019
Non-trading financial assets mandatorily at FVPL	55	-	-	-	(55)	-	-	-
Financial assets at fair value through OCI	112,768	399	(2,922)	-	(1,554)	-	-	108,691
Total	**112,823**	**399**	**(2,922)**	**-**	**(1,609)**	**-**	**-**	**108,691**

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

31 December 2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**356,934**	**356,934**	**-**	**356,934**	**-**
Financial assets at amortised cost	**3,072,247**	**3,210,205**	**525,190**	**75,030**	**2,609,985**
Debt securities	537,634	538,516	472,019	-	66,497
Loans and advances	2,482,481	2,619,557	53,171	22,898	2,543,488
Other financial assets	52,132	52,132	-	52,132	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**3,709,554**	**3,728,347**	**-**	**3,720,826**	**7,521**
Deposits	3,659,745	3,678,538	-	3,671,017	7,521
Other financial liabilities	49,809	49,809	-	49,809	-

31 December 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**306,566**	**306,566**	**-**	**306,566**	**-**
Financial assets at amortised cost	**3,151,637**	**3,361,259**	**319,298**	**281,838**	**2,760,123**
Debt securities	429,190	499,773	319,298	55,234	125,241
Loans and advances	2,668,296	2,807,335	-	172,453	2,634,882
Other financial assets	54,151	54,151	-	54,151	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**3,626,101**	**3,629,505**	**-**	**3,629,505**	**-**
Deposits	3,602,516	3,605,920	-	3,605,920	-
Other financial liabilities	23,585	23,585	-	23,585	-

36. Risk management

The ultimate body responsible for risk management is the Board of Directors. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Some responsibilities are delegated to permanent working groups and advisory bodies.

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

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

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

The Group has exposure to the following main risks:
- Settlement risk
- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Settlement risk

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

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

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

The risk to a management company is that the issuer or counterparty fails to meet its obligation. The potential credit risk impact on asset value is moderate.

Mutual funds minimise the risk of trading with securities in particular, by the fact that trading with the mutual fund assets is performed in accordance with the law in such way that the value is transferred in favor of the mutual fund, on the principle of payment versus delivery, within normal timescales of the regulated market. Risk management involves: issuer and counterparty creditworthiness testing, establishment of limits on issuer and counterparty in terms of risk and risk delimitation rules, establishment of limits in the information system, and its subsequent conversion.

37. Credit risk

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

Credit risk management includes:

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

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

When analysing client deals the Group uses:

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

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

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

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

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

The Group continuously monitors, assesses and evaluates compliance with the limits.

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

	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
EUR'000	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Central banks	**988**	**988**	**409**	**165,726**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	**432,494**	**299,054**	**-**	**-**	**333,776**	**286,979**	**-**	**-**	**-**	**-**
Credit institutions	**30,983**	**10,280**	**22,701**	**9,281**	**48,295**	**63,692**	**-**	**-**	**-**	**-**
Other financial corporations	**4,302**	**1,672**	**276,549**	**277,423**	**50,943**	**43,523**	**52**	**27,008**	**5,116**	**5,054**
Non-financial corporations	**76,397**	**119,602**	**993,963**	**1,208,847**	**108,626**	**112,702**	**196,478**	**137,512**	**22,094**	**21,315**
A Agriculture, forestry and fishing	-	-	8,874	382	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	2,656	-	73,109	141,511	3,020	3,015	1,653	6,755	68	39
D Electricity, gas, steam and air conditioning supply	1,048	41,811	125,929	139,940	-	-	50,003	50,064	-	-
E Water supply	-	-	51	103	-	-	-	-	-	-
F Construction	-	-	59,458	41,639	-	-	24,189	3,195	9,245	5,068
G Wholesale and retail trade	-	-	80,955	116,850	-	-	3,735	27,799	4,213	3,789
H Transport and storage	-	-	2,519	23,367	-	-	11,074	8,709	1,184	1,170
I Accommodation and food service activities	-	-	47,654	87,534	53,111	52,402	165	2,215	-	-
J Information and communication	1,309	-	13,941	13,593	-	-	4,088	3,050	-	4,000
K Financial and insurance activities	4,042	10,357	-	5	12,415	13,848	65,138	11,029	-	-
L Real estate activities	66,682	67,434	312,440	293,313	-	-	34,123	21,189	-	-
M Professional, scientific and technical activities	-	-	148,514	171,403	-	-	1,723	2,216	7,359	7,224
N Administrative and support service activities	-	-	95,950	132,636	-	-	582	868	-	-
O Public administration and defence, compulsory social security	660	-	11	2,015	-	-	-	-	-	-
P Education	-	-	22	44	-	-	-	-	-	-
Q Human health services and social work activities	-	-	21,559	22,555	-	-	-	51	25	25
R Arts, entertainment and recreation	-	-	92	12,034	40,080	43,437	-	333	-	-
S Other services	-	-	2,885	9,923	-	-	5	39	-	-
Households	**-**	**-**	**1,396,591**	**1,206,715**	**-**	**-**	**129,615**	**129,387**	**-**	**-**
Total	**545,164**	**431,596**	**2,690,213**	**2,867,992**	**541,640**	**506,896**	**326,145**	**293,907**	**27,210**	**26,369**

	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
EUR'000	**Debt securities**		**Loans and advances**		**Debt securities**		**Loan commitments given**		**Financial guarantees given**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Slovak Republic	446,405	354,968	2,019,009	1,978,730	229,345	186,271	168,332	231,602	10,849	10,254
Czech Republic	-	41,811	292,002	491,987	87,009	82,606	142,794	56,874	3,886	3,838
Cyprus	-	-	166,599	204,509	-	-	15,002	2	-	-
Luxemburg	2,536	988	95,000	105,374	43,162	41,443	-	-	-	-
Poland	15,913	16,042	11	1,317	56,217	80,842	2	3	-	-
France	2,131	1,056	3,284	3,404	59,571	65,550	1	1	-	-
Germany	1,806	802	615	47,333	-	-	1	1	-	-
Switzerland	-	-	62,531	1	-	-	6	5	-	-
Great Britain	760	757	5,948	582	13,721	13,462	-	-	-	-
Netherlands	23,039	3,066	34,944	2,057	-	-	-	-	5,116	5,054
Italy	-	5,036	1	541	10,467	5,066	-	1	-	-
Ireland	12,003	831	9,999	97	-	15,776	-	-	-	-
Latvia	2,234	-	-	-	17,629	-	-	-	-	-
Lithuania	10,238	-	-	-	13,294	-	-	-	-	-
Other countries	28,099	6,239	270	32,060	11,225	15,880	7	5,418	7,359	7,223
Total	**545,164**	**431,596**	**2,690,213**	**2,867,992**	**541,640**	**506,896**	**326,145**	**293,907**	**27,210**	**26,369**

Rating system

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

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

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

Measurement of expected credit losses

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

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

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

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

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

The Group sets the level of significance at EUR 300 thousand (2018: EUR 300 thousand). Financial assets with exposure equal or higher than EUR 300 thousand (2018: EUR 300 thousand) are assessed individually in the staging process.

The same principles are also applied for measurement of provisions for off-balance sheet exposures, arising from loan and other commitments, and guarantees given.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Significant increase in credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

i. Quantitative criteria:

Remaining Lifetime PD at the reporting date has increased compared to the expected residual Lifetime PD at the initial recognition date, and it exceeds the relevant threshold.

These thresholds are determined separately for retail and corporate portfolios, by assessing how the Lifetime PD changes prior to an instrument becoming problematic.

The protection criterion applies, and the financial asset is considered to have experienced a significant increase in credit risk, when the borrower is past due with contracted payments for more than 30 days. The Group does not benefit from the exception of low credit risk for any financial instrument.

ii. Qualitative criteria:

The Group uses the following indicators to assess whether SICR has occurred:
- The debtor violates the financial covenants or contracts
- Actual or expected significant adverse change in operating results of the borrower
- Negative information about the borrower from external sources
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Actual or expected concession, restructuring or change in the repayment schedule

The assessment of SICR for individually assessed exposures is carried out at the level of the counterparty on an ongoing basis. The criteria used to identify SICR are monitored and reassessed, in order to assess their suitability, at least once a year.

Definition of default and credit impaired financial assets

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

i. Hard criteria:

- Any significant credit obligation of the borrower towards the Group, parent company, or any of its subsidiaries is more than 90 days past due
- The Borrower has declared bankruptcy or other form of reorganisation
- The Borrower has asked the Group for concession due to economic or contractual reasons, related to the borrower's financial difficulties and a significant reduction in the quality of the loan
- The loan was forfeited
- Fraud

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

ii. Soft criteria:

- The receivable is overdue (up to 90 days)
- The Group recognises a specific loan concession to the loan agreement, resulting from a significant reduction in the quality of the loan
- Signs of impairment, leading to the assumption that the borrower will not pay its credit obligations to the bank in full and in time, without taking any actions such as realisation of the collateral
- Significant impairment of main loan collateral
- Failure of the debtor in another financial institution, or failure of another client's loans and advances in the bank
- Any other warning signs identified in the client monitoring and engagement process that, according to the Group's assessment, will result in the debtor not paying his credit commitments to the Group in full and in time, without the Group taking steps toward loan collateral

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

Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information ('*FLI'*).

i. Individually assessed exposures

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

ii. Portfolio-based exposures

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

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

Calculation of ECL

The bank calculates ECL on an individual or portfolio basis. Individual basis is an individual estimate of cash flows at the exposure level. In calculating the ECL on a portfolio basis, exposures are classified from common risk characteristics into a homogenous group. The Risk Management Division regularly monitors and reviews the suitability of grouping.

i. Individual calculation:

The individual basis for calculating ECL is used for individually assessed exposures in Stage 3:

The ECL calculation is generally based on three scenarios (and at least two scenarios), and each scenario is given a certain probability:

- **Contractual scenario** - scenario based on the expectation of maturity of all contractual cash flows on time and in full amount
- **Going concern** - scenario based on the expectation of both contractual cash flows and cash flows from collateral recovery
- **Gone concern** - the worst scenario based on the expectation of both contractual cash flows and cash flow from collateral recovery. Compared to the Going concern scenario, the Group expects lower cash flow values

The ECL is calculated as the probability – weighted amount of expected cash flows from each scenario, discounted by the original EIR.

ii. Portfolio calculation:

Portfolio ECL calculation is used for all other cases. Portfolio ECL is calculated using the following formula ECL = PD × EAD × LGD, where:

- PD: probability of default is the probability that the borrower will not fulfill its financial liabilities. PD depends on the rating and the following rules apply:
  - Stage 1: use of 12-month PD, i.e. probability of default over the next 12 months
  - Stage 2: use of PD over the lifetime, i.e. probability of default over the entire lifetime of the exposure
  - Stage 3: PD is equal to 1 because the exposure is already defaulted
- EAD: non-secured exposure at default
- LGD: loss given default means the ratio of credit loss in case of default to EAD

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

LGD change	31 December 2019		31 December 2018	
	in %	EUR'000	in %	EUR'000
+5%	3.36%	7,025	3.99%	7,509
-5%	-3.36%	(7,025)	-3.99%	7,509
+10%	6.67%	13,927	7.98%	15,019
-10%	-6.73%	(14,050)	-7.98%	(15,019)

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

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

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets at AC - Debt securities	-	-	-	-	-	-	-	-	-	-
Low credit risk	478,482	311,994	-	-	-	-	-	-	478,482	311,994
Moderate credit risk	-	52,168	-	-	-	-	-	-	-	52,168
High credit risk	-	67,434	66,682	-	-	-	-	-	66,682	67,434
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**478,482**	**431,596**	**66,682**	**-**	**-**	**-**	**-**	**-**	**545,164**	**431,596**
Impairment allowance	(145)	(2,406)	(7,385)	-	-	-	-	-	(7,530)	(2,406)
Carrying amount	**478,337**	**429,190**	**59,297**	**-**	**-**	**-**	**-**	**-**	**537,634**	**429,190**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets at AC - Loans and advances	-	-	-	-	-	-	-	-	-	-
Low credit risk	745,282	751,876	5,824	4,114	-	-	-	-	751,106	755,990
Moderate credit risk	1,213,471	1,463,333	32,364	23,398	-	-	-	-	1,245,835	1,486,731
High credit risk	311,127	257,465	123,138	107,251	-	-	14	-	434,279	364,716
Default	-	-	-	-	169,126	206,270	37,396	-	206,522	206,270
Not rated	15,197	7,535	36,870	44,696	404	2,054	-	-	52,471	54,285
Gross amount	**2,285,077**	**2,480,209**	**198,196**	**179,459**	**169,530**	**208,324**	**37,410**	**-**	**2,690,213**	**2,867,992**
Impairment allowance	(26,864)	(24,331)	(22,743)	(26,729)	(140,539)	(148,636)	(17,586)	-	(207,732)	(199,696)
Carrying amount	**2,258,213**	**2,455,878**	**175,453**	**152,730**	**28,991**	**59,688**	**19,824**	**-**	**2,482,481**	**2,668,296**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets at FVOCI - Debt securities	-	-	-	-	-	-	-	-	-	-
Low credit risk	425,233	405,960	-	-	-	-	-	-	425,233	405,960
Moderate credit risk	113,387	97,921	-	-	-	-	-	-	113,387	97,921
High credit risk	3,020	3,015	-	-	-	-	-	-	3,020	3,015
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**541,640**	**506,896**	**-**	**-**	**-**	**-**	**-**	**-**	**541,640**	**506,896**
Impairment allowance in OCI	(1,218)	(1,075)	-	-	-	-	-	-	(1,218)	(1,075)

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Loan and other commitments given	-	-	-	-	-	-	-	-	-	-
Low credit risk	130,979	133,152	4	4	-	-	-	-	130,983	133,156
Moderate credit risk	177,477	136,860	-	2	-	-	-	-	177,477	136,862
High credit risk	4,470	9,535	1,832	8,002	-	-	-	-	6,302	17,537
Default	-	-	-	-	4	2,280	-	-	4	2,280
Not rated	3,000	3,000	8,379	1,072	-	-	-	-	11,379	4,072
Gross amount	**315,926**	**282,547**	**10,215**	**9,080**	**4**	**2,280**	**-**	**-**	**326,145**	**293,907**
Provision	**1,337**	**953**	**695**	**801**	**-**	**1,107**	**-**	**-**	**2,032**	**2,861**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial guarantees given	-	-	-	-	-	-	-	-	-	-
Low credit risk	896	4,025	-	-	-	-	-	-	896	4,025
Moderate credit risk	20,466	13,787	-	-	-	-	-	-	20,466	13,787
High credit risk	3,314	5,852	-	-	-	-	-	-	3,314	5,852
Default	-	-	-	-	2,534	2,262	-	-	2,534	2,262
Not rated	-	443	-	-	-	-	-	-	-	443
Gross amount	**24,676**	**24,107**	**-**	**-**	**2,534**	**2,262**	**-**	**-**	**27,210**	**26,369**
Provision	**231**	**229**	**-**	**-**	**494**	**394**	**-**	**-**	**725**	**623**

Collateral

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

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

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

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

EUR'000	31.12.2019	31.12.2018
Guarantees received	-	-
Real-estates	638,964	571,217
Securities	199,093	394,439
Cash	9	333
Other	126,598	134,338
Total	**964,664**	**1,100,327**

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

Net value of assets acquired by taking possession of the collateral is as follows:

EUR'000	31.12.2019	31.12.2018
Net value of assets obtained by taking possession of collateral	167	-

Recovery of delinquent receivables

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

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

38. Liquidity risk

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

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

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

Management of liquidity risk

The Group’s approach to managing liquidity is to ensure, where possible, sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

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

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

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

Exposure to liquidity risk

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

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

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

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

	2019	**2018**
End of the period	2.88	2.28
Average for the period	2.65	2.58
Maximum for the period	2.88	3.27
Minimum for the period	2.32	1.81

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

EUR'000	**31 December 2019**			**31 December 2018**		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets						
Cash, cash balances at central banks and other demand deposits	356,934	-	356,934	306,566	-	306,566
Financial assets held for trading	1,021	-	1,021	1,799	-	1,799
Non-trading financial assets mandatorily at fair value through profit or loss	16,778	276,130	292,908	9,028	235,663	244,691
Financial assets at fair value through other comprehensive income	75,506	469,026	544,532	109,622	399,273	508,895
Financial assets at amortised cost	715,855	2,356,392	3,072,247	755,299	2,396,338	3,151,637
Debt securities	*186,923*	*350,711*	*537,634*	*107,316*	*321,874*	*429,190*
Loans and advances	*476,800*	*2,005,681*	*2,482,481*	*593,836*	*2,074,460*	*2,668,296*
Other financial assets	*52,132*	-	*52,132*	*54,147*	*4*	*54,151*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,965	-	1,965	869	-	869
Investments in subsidiaries, joint ventures and associates	-	1,073	1,073	-	868	868
Tangible assets	-	49,073	49,073	-	20,649	20,649
Intangible assets	-	46,538	46,538	-	41,265	41,265
Current tax assets	1,837	-	1,837	690	-	690
Deferred tax assets	-	18,970	18,970	-	18,505	18,505
Other assets	24,158	-	24,158	18,956	-	18,956
Total assets	**1,194,054**	**3,217,202**	**4,411,256**	**1,202,829**	**3,112,561**	**4,315,390**
Liabilities						
Financial liabilities held for trading	3,968	-	3,968	469	-	469
Financial liabilities measured at amortised cost	3,253,644	455,910	3,709,554	3,324,964	301,137	3,626,101
Deposits	*3,224,123*	*435,622*	*3,659,745*	*3,301,555*	*300,961*	*3,602,516*
Other financial liabilities	*29,521*	*20,288*	*49,809*	*23,409*	*176*	*23,585*
thereof: lease liabilities	*5,983*	*20,070*	*26,053*	-	-	-
Derivatives – Hedge accounting	9,420	-	9,420	5,607	-	5,607
Provisions	26,019	-	26,019	24,042	-	24,042
Current tax liabilities	872	-	872	3,813	-	3,813
Other liabilities	18,923	-	18,923	13,365	-	13,365
Total liabilities	**3,312,846**	**455,910**	**3,768,756**	**3,372,260**	**301,137**	**3,673,397**

The Group monitors residual maturity based on expected recovery or expected maturity of the individual assets and liabilities. Historical experience shows that short-term liabilities are usually prolonged.

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

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities measured at amortised cost	2,868,083	387,253	413,182	58,668	3,727,186	3,709,554
Deposits	*2,843,929*	*381,594*	*396,561*	*54,011*	*3,676,095*	*3,659,745*
Other financial liabilities	*24,154*	*5,659*	*16,621*	*4,657*	*51,091*	*49,809*
thereof: lease liabilities	*1,716*	*4,312*	*16,403*	*4,657*	*27,088*	*26,053*
Total	**2,868,083**	**387,253**	**413,182**	**58,668**	**3,727,186**	**3,709,554**
31 December 2018						
Financial liabilities measured at amortised cost	2,962,911	369,576	262,289	45,674	3,640,450	3,626,101
Deposits	*2,939,898*	*369,180*	*262,113*	*45,674*	*3,616,865*	*3,602,516*
Other financial liabilities	*23,013*	*396*	*176*	*-*	*23,585*	*23,585*
thereof: lease liabilities	*-*	*-*	*-*	*-*	*-*	*x*
Total	**2,962,911**	**369,576**	**262,289**	**45,674**	**3,640,450**	**3,626,101**

EUR'000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2019						
Loan and other commitments given	326,145	-	-	-	326,145	326,145
Financial guarantees given	621	5,177	12,715	8,697	27,210	27,210
Total	**326,766**	**5,177**	**12,715**	**8,697**	**353,355**	**353,355**
31 December 2018						
Loan and other commitments given	293,907	-	-	-	293,907	293,907
Financial guarantees given	6,053	7,425	5,254	7,637	26,369	26,369
Total	**299,960**	**7,425**	**5,254**	**7,637**	**320,276**	**320,276**

39. Market risk

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

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

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

Management of market risks

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

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

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

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

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

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

A summary of the VaR position of the Group:

EUR'000	**31.12.2019**	**Average**	**Maximum**	**Minimum**
VaR trading book	1	6	85	0
VaR banking book	766	900	1,199	666
VaR total	767	901	1,199	666
Out of which interest rate risk	*570*	*572*	*843*	*158*
Out of which credit spread risk	*908*	*848*	*1,244*	*616*
Out of which foreign exchange risk	*1*	*6*	*85*	*0*

EUR'000	**31.12.2018**	**Average**	**Maximum**	**Minimum**
VaR trading book	4	12	58	3
VaR banking book	913	1,245	1,507	135
VaR total	913	1,265	1,529	134
Out of which interest rate risk	*829*	*971*	*1,267*	*36*
Out of which credit spread risk	*749*	*1,113*	*1,399*	*749*
Out of which foreign exchange risk	*7*	*12*	*58*	*3*

Interest rate risk

The main source of the Group's interest rate risk is so-called revaluation risk which arises due to timing differences in maturity dates (fixed rate positions) and in revaluation (variable rate positions) assets, liabilities, and positions in commitments, contingencies and derivative financial instruments of the Group.

Other sources of interest rate risk are:

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

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

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

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

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows, or fair values of financial instruments, because of a change in market interest rates.

Sensitivity of economic value of the Group due to movements in interest rates:

	2019	**2018**
End of the period	(37,550)	(49,365)
Average for the period	(29,911)	(51,891)
Maximum for the period	(50,894)	(55,548)
Minimum for the period	(16,647)	(45,609)

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

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

Share price risk

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

When investing in equity instruments, the Group:

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

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

Foreign exchange risk

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

40. Operational risk

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

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

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

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

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

Legal risk

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

Compliance risk

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

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

Risks related to outsourcing

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

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

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

41. Insurance risk

Poštová poisťovňa, a.s. ("*the insurance company*") as the insurance company, is exposed to insurance risk and to underwriting risk arising from life and non-life insurance products. Internal guidelines are used to manage risk relating to the development and valuation of products, determination of technical provisions, reinsurance determination ,and to establish rules and limits for underwriting insurance.

Life insurance is exposed to insurance risk of morbidity, mortality, longevity, and concentration risk in case of epidemics and disasters. To eliminate these risks, medical and financial underwriting, or reinsurance (which then brings a credit risk from the reinsurer) are used. In non-life insurance, the company is exposed particularly to the risk of the adequacy of future premiums (due to the unexpected development of future claims, administrative costs, increased rates of cancellation, etc.), risk of extreme events (catastrophic risk), and the sufficiency of claim provisions (due to unexpected development of already incurred claims, lawsuits, etc.).

Development of claims

Information about the development of claims is provided in the following tables, in order to illustrate the risks arising from insurance contracts. The tables compare the development of the estimated ultimate loss for non-life insurance, on an accident-year basis. The first part of the table provides a review of current estimates of cumulative claims, and demonstrates how the estimated claims have changed at subsequent accounting year-ends. The estimate is increased or decreased as losses are paid, and more information becomes known about the frequency and severity of unpaid claims. The second part of the table shows the value of claims paid according to the year of claim occurrence.

Various factors may influence the re-estimated provisions, and the cumulative excess or deficit presented in each table. These include inadequate information when reporting a claim, problems with settlement, assessment of provisions for unclaimed insurance etc. The information in the table provides a historical perspective on the adequacy of unpaid claims estimates, but may not be a reliable base for extrapolating surpluses or deficits of past provisions to current unpaid loss balances.

Analysis of the development of non-life claims – gross of reinsurance

EUR'000	**<2010**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
at the year-end when the claim occurred		246	141	140	178	161	186	325	413	598	462	
one year later		74	62	64	103	98	134	352	435	595		
two years later		68	62	61	103	101	131	347	434			
three years later		68	62	61	103	101	130	347				
four years later		68	62	61	103	101	131					
five years later		68	62	61	103	101						
six years later		68	62	61	103							
seven years later		68	62	61								
eight years later		68	62									
nine years later		68										
Estimate of cumulative insurance claims (present)		68	62	61	103	101	131	347	434	595	462	**2,363**
Cumulative payments		68	62	61	103	101	131	345	431	547	201	**2,049**
Cumulative provision	**245**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**3**	**48**	**261**	**559**

Analysis of the development of non-life claims – net of reinsurance

EUR'000	**<2010**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
at the year-end when the claim occurred		144	73	81	114	110	141	298	385	535	412	
one year later		56	45	50	77	77	120	334	413	556		
two years later		53	45	49	77	79	117	333	413			
three years later		53	45	49	77	80	117	333				
four years later		53	45	48	77	80	117					
five years later		53	45	48	77	80						
six years later		53	45	48	77							
seven years later		53	45	48								
eight years later		53	45									
nine years later		53										
Estimate of cumulative insurance claims (present)		53	45	48	77	80	117	333	413	556	412	**2,134**
Cumulative payments		53	45	48	77	80	117	331	410	510	186	**1,857**
Cumulative provision	**98**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**3**	**47**	**226**	**375**

Summary of provisions from life insurance contracts:

	31 December 2019		**31 December 2018**	
	Before reinsurance	**After reinsurance**	**Before reinsurance**	**After reinsurance**
Traditional life insurance for death and endowment	20,637	20,632	18,050	18,016
Current and deferred pensions	499	499	324	324
Investment contracts with discretionary participation features	154	154	124	124
Riders	549	541	504	492
Total	**21,839**	**21,826**	**19,001**	**18,955**

Summary of provisions from non-life insurance before and after reinsurance:

	31 December 2019		**31 December 2018**	
	Before reinsurance	**After reinsurance**	**Before reinsurance**	**After reinsurance**
Liability	320	140	298	126
Loss of employment	34	33	26	26
Assets	270	149	452	235
Motor vehicles	-	-	-	-
Health/ accident, other	218	218	205	205
Travel	47	-	46	-
Total	**889**	**540**	**1,027**	**592**

Insurance provisions

All provisions arising from insurance contracts and investment contracts with DPF are subject to a liability adequacy test, in which the carrying amount of technical provisions and liabilities is compared to the present value of future cash flows arising from these contracts. The present value of future liabilities is determined using the best estimate assumptions at the time of testing.

Summary of assumptions and margins for assumptions used in the liability adequacy test:

Assumption	Assumption category	31.12.2019	31.12.2018	Margin
Cancellation rate	in the first year of insurance	30% - 54% (3% - 60%**)	30% - 47% (7% - 62%*)	-10%
	in the second year of insurance	14% - 35% (14% - 49%**)	11% - 35% (12% - 62%*)	-10%
	in the next years of insurance	6% - 30% (5% - 65%**)	5% - 30% (9% - 71%*)	-10%
Costs	fixed (in EUR)	4€ - 55€	9€ - 35€	N/A
	% of gross premium written	18,3% - 19,7%	15,6% - 19,3%	10%
Cost inflation		1,70% - 2,42%	2,00% - 2,94%	10%
Investment yield	for the following year	-0.0018	0.0011	
	for next years	-0,01% - 1,52%	0,52% - 2,80%	
Discount rate	for the following year	-0.0049	-0.0079	
	for next years	-0,36% - 1,53%	-0,40% - 2,80%	
Coefficient of payment out of pension contracts	in a lump sum	85%	85%	
	annuity	15%	15%	

The company performs the test of adequacy individually for the main covers (death and endowment) of life insurance contracts, together with supplementary insurance to credit insurance for invalidity (where products are divided into eight homogeneous groups of products, as shown in the table below), and individually for all other supplementary insurances to life insurance (within the test of adequacy in non-life insurance). An inadequacy of provisions in particular groups of products is not covered by an adequacy of provisions in other groups of products.

The results of the test of adequacy for the main covers and riders of life insurance contracts:

Group of products	Life insurance provision incl. DAC	Unearned premium provision	Provision for RBNS claims	Total of provisions tested for adequacy	Present value of future cash flows	Minimum required provision	Inadequacy of provision
Risk insurance with supplement. invalidity	-	-	-	-	(923)	-	-
Endowment insurance and mixed insurance	703	8	11	723	960	960	237
Pension insurance	305	1	12	318	606	606	287
Insurance for funeral costs	14,670	148	-	14,818	14,745	14,745	-
Universal capital life insurance	667	2	-	669	759	759	91
Investment life insurance	1,491	0	-	1,491	1,399	1,399	-
Children's insurance	1,839	2	-	1,841	1,385	1,385	-
Risk insurance	(104)	40	-	(64)	(2,226)	-	-
Mortgage	-	-	-	-	(182)	-	-
Total	**19,570**	**202**	**24**	**19,796**	**16,524**	**19,854**	**615**

Other risks

Other risks associated with insurance contracts and investment contracts with discretionary participation features ('*DPF*') are cancellation, market, and expense inflation risks.

Cancellation risk is a risk that the client cancels the contract or stops paying new premiums into the contract, thereby exposing the insurance company to a loss resulting from an adverse movement in actuality, compared to that expected in the product pricing. The insurance company manages this risk by making appropriate charges for early surrender, where possible, and by maintaining high levels of customer care.

Market risk is a risk of loss in fair value, resulting from adverse fluctuations in interest and foreign currency exchange rates and equity prices, and the consequent effect that this has on the value of charges earned by the Group, and on any guarantees in the contracts.

The risk of expense inflation is a risk that the actual costs of the insurance company will be higher than the cost calculation of the products, in relation to the expected sale of contracts, long term development of all insurance contracts in the portfolio, price levels, etc.

Market risk

The insurance company is exposed to financial risk through its insurance contracts, financial assets, financial liabilities (including investment contracts with DPF), and reinsurers' share on insurance provisions arising from insurance contracts. Market risk is the risk of loss resulting from the decrease of fair value of investments, due to unfavorable movements of interest rates, exchange rates or prices of shares, and the subsequent impact on contractually guaranteed items. The goal of the insurance company is to invest assets covering liabilities from insurance and investment contracts with DPF, into assets that face equal or similar risks. This principle ensures that the insurance company can meet its contractual liabilities when they become due.

The insurance company is exposed to residual financial risk mainly due to the following:

- It is not possible to perfectly match financial assets to liabilities from insurance. This relates mainly to long-tail non-life insurance, traditional life insurance death & endowment contracts, and to pension life insurance contracts. Additional risks relate to guarantees and options embedded in insurance and investment contracts with DPF
- An existing credit risk relating to reinsurers' share in insurance provisions

Solvency

Under the Act No. 39/2015 Coll. on insurance, the insurance company has an obligation to cover the capital requirement on solvency with eligible own funds, and also has an obligation to maintain this requirement throughout the whole accounting period.

Concentration of risk in non-life insurance

The majority of underwritten risks are located in the Slovak Republic, whereas the insurance company focuses on household insurance and non-life insurance of individuals, and therefore is not exposed to a significant concentration of risk. The insured objects are evenly distributed and thus there is no significant geographical concentration of risk.

Concentration of mortality risk

Contracts covering mortality risk are not exposed to a significant geographical concentration of risk. However, a concentration of insurance amounts could influence claim volatility (and therefore also profit or loss) if the insurance company concludes a small number of contracts with high sums insured.

Liquidity risk

An important part of assets and liabilities management of the insurance company is to secure a sufficient amount of cash for payment of due payables. The insurance company holds cash and liquid deposits for daily requirements to pay its liabilities. Normally the majority of claims are settled by funds received from the insured and investors.

In the long term the insurance company monitors its expected liquidity by estimating future cash flows from insurance and investment contracts with DPF. A negative difference in expected cash flows is covered by prolongation of term deposits and purchase of bonds from received insurance premiums.

42. Regulatory requirements of the asset management company

The asset management company is obliged to comply with regulatory requirements of the National Bank of Slovakia ('*NBS*'), which are set out under Act No. 203/2011 on collective investment, and according to NBS Provision No. 7/2011 on capital resources of asset management companies. These include limits and restrictions on capital adequacy. These requirements apply to all asset management companies in Slovakia and their compliance is determined on the basis of reports submitted by the asset management company under statutory legal regulations.

The own funds of the management company are considered appropriate under this Act, unless they are below:

a) EUR 125 thousand plus 0.02% of the value of the assets in funds managed by the company exceeding EUR 250,000 thousand. This amount is not further increased when it reaches EUR 10,000 thousand,
b) EUR 125 thousand plus 0.02% of the value of the assets in alternative investment funds managed by the company exceeding EUR 250,000 thousand. This amount is not further increased when it reaches EUR 10,000 thousand,
c) One quarter of the average general operating costs of the management company for the previous calendar year. If the management company exists for less than one year, a quarter of the amount of general operating costs according to its business plan.

43. Regulatory requirements of the pension funds management company

The pension funds management company, when administering and creating pension funds, is obliged to comply with regulatory requirements of the National Bank of Slovakia, as stated in the Act No. 43/2004 on pension saving funds ('*Act on PSF*'). These requirements apply to all pension funds management companies in Slovakia.

Own resources are adequate when:

a) There are not less than 25% of general operating expenses for the previous year. If the pension funds management company is operating less than one year, 25% of the amount of general operating expenses stated in its commercial and financial plan, and
b) the ratio of the difference between liquid assets and liabilities and receivables to the value of assets in all pension funds under management is not less than 0.005 (according to the Act No. 43/2004 Section 60 as amended).

44. Capital management

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

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

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

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

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

The Group's position of own funds according to the Capital Requirement Regulation is displayed in the following table:

EUR'000	31.12.2019	31.12.2018
Tier I Capital	**584,830**	**581,516**
Share capital and share premium	367,043	367,043
Reserve funds and other funds created from profit	55,555	50,415
Selected components of accumulated other comprehensive income	6,547	8,221
Profit or loss of previous years	172,563	163,862
Intangible assets	(44,200)	(38,786)
Additional valuation adjustments	(914)	(797)
Other transitional adjustments to CET1 Capital	28,236	31,558
Tier II Capital	**8,000**	**8,000**
Subordinated debt	8,000	8,000
Regulatory capital total	**592,830**	**589,516**

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

EUR'000	31.12.2019	31.12.2018
Capital required to cover:		
Credit risk	254,287	249,440
Credit value adjustment risk	141	111
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	1,283
Operational risk	30,082	30,621
Total capital requirements	**284,510**	**281,455**
Capital ratios		
Total capital level as a percentage of total risk weighted assets	16.67%	16.76%
Tier I capital as a percentage of total risk weighted assets	16.44%	16.53%
Common Equity Tier I capital as a percentage of total risk weighted assets	16.44%	16.53%

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

EUR'000	31.12.2019	31.12.2018
Available capital (amounts)		
Common Equity Tier 1 (CET1) capital	584,830	581,516
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements were not applied	556,594	549,958
Tier 1 capital	584,830	581,516
Tier 1 capital as if IFRS 9 transitional arrangements were not applied	556,594	549,958
Total capital	592,830	589,516
Total capital as if IFRS 9 transitional arrangements were not applied	564,594	558,895
Risk-weighted assets (amounts)		
Risk-weighted assets	3,556,383	3,518,194
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	3,524,623	3,487,096

Capital ratio		
Common Equity Tier 1 capital (as a percentage of risk exposure amount)	16.44%	16.53%
Common Equity Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	15.79%	15.77%
Tier 1 capital (as a percentage of risk exposure amount)	16.44%	16.53%
Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	15.79%	15.77%
Total capital (as a percentage of risk exposure amount)	16.67%	16.76%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	16.02%	16.03%

45. Post balance-sheet events

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