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 2020 (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 Board of Directors 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 2020, 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 financial position of the Group as at 31 December 2020, and of its financial performance and its 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"). and 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. 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.

We have determined the following key audit matters:

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2020: € 2 780 835 thousand; impairment loss recognised in 2020: € 46 164 thousand; total impairment loss as at 31 December 2020: € 227 362 thousand.

Refer to Note 2 (Significant accounting policies), Note 8 (Financial assets at amortised cost: Loans and advances) and Note 30 (Impairment losses and provisions: Financial assets at amortised cost - Loans and advances).

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within financial assets at amortized cost at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment from the Management Board over the amount of any such impairment. Impairment allowances for most 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 and management judgment are incorporated into the model assumptions . For non-performing exposures exceeding € 300 thousand individually, the impairment assessment is based on the Group's knowledge of each individual borrower and often on estimation of the realizable amount of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows valuation.	Our audit procedures in this area included, among others: • Updating our understanding of the Group's ECL impairment methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed, whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on our 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;

For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, 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.

- Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and advances, including, but not limited to, the controls relating to the identification of loss events / default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and the overall ECL estimate;
- 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);
- Evaluating whether in its loan staging and ECL measurement the Group appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic;
- Challenging LGD and PD parameters used by the Group, by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances.
- Obtaining the Group's forward-looking information used in the Group's ECL assessment. Assessing the information by means of comparison to publicly available information and corroborating inquiries of the Management Board;
- For impairment allowances calculated individually, for a risk-based sample of loans, 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 3 as at 31 December 2020;

- For the exposures with triggers for classification in Stage 3, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation, such as collateral values by reference to own marker search and also performing respective independent estimations, where relevant.

For loans and advances exposures in totality:

- Examining whether the Group's loan impairment and credit risk-related disclosures in the consolidated financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Measurement of securities held at fair value

The carrying amount of securities held at fair value as at 31 December 2020: € 778 521 thousand; change in fair value recognized in profit or loss for the year ended 31 December 2020: € 3 358 thousand; positive change in fair value recognized in other comprehensive income for the year ended 31 December 2020: € 2 390 thousand.

Refer to Note 2 (Significant accounting policies), Note 6 (Non-trading financial assets mandatorily at fair value through profit or loss), Note 7 (Financial assets at fair value through other comprehensive income) and Note 24 (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.	Our audit procedures, performed, where applicable, with the assistance from our own valuation specialists, included, among others: • Updating our understanding of the Group's fair value measurement methodology and assessing its compliance with the requirements of relevant financial reporting standards.

For both security types, the Group determines their respective fair values based on either quoted prices of identical or similar instruments, or valuation techniques, such as discounted cash flows, using market observable and unobservable inputs, such as credit spread or liquidity premium.

Due to the magnitude of the amounts involved, as well as the complexity involved and judgment required in measuring the fair value of certain of these instruments, their valuation was a key area of focus during our audit.

As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed, whether such methods, assumptions, data and their application are appropriate in the context of said requirements.

- 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;
- On a sample of valuations based on inputs other than quoted prices, performing an independent estimate of the fair value of the said financial instruments outstanding as at 31 December 2020, using market observable inputs derived from external market providers, and comparing our estimate to the carrying amount in the Group's consolidated financial statements; 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.
- Assessing the appropriateness of the fair value – related disclosures in the consolidated financial statements, including the disclosures in respect of the methods and inputs used in the Group's determination of the fair values, in light of the requirements of applicable financial reporting framework.

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

The Management Board is responsible for the preparation of the 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 scepticism throughout the audit. We also:

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 other information in the Consolidated Annual Report

The Management Board is responsible for the other information. The other information comprises the information included in the Consolidated Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting") but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information in the Consolidated Annual Report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the Consolidated Annual Report that we have obtained prior to the date of the auditors' report on the audit of the consolidated financial statements, 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 of the consolidated financial statements, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

The Consolidated Annual Report was not available to us as of the date of this auditors' report on the audit of the consolidated financial statements.

When we obtain the Consolidated Annual Report of the Group, based on the work undertaken in the course of the audit of the consolidated financial statements we will express an opinion as to whether, in all material respects:

- the other information given in the Consolidated Annual Report for the year 2020 is consistent with the consolidated financial statements prepared for the same financial year; and
- the Consolidated Annual Report contains information required by the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the other information 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.

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 a statutory auditor by the Management Board of the Bank 29 September 2020 on the basis of approval by the General Meeting of the Bank on 18 June 2020. 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 eighteen 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 Bank, 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.

10 March 2021
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	31.12.2020	31.12.2019
Assets			
Cash, cash balances at central banks and other demand deposits	4	296 241	356 934
Financial assets held for trading	5	2 648	1 021
Non-trading financial assets mandatorily at fair value through profit or loss	6	338 920	292 908
Financial assets at fair value through other comprehensive income	7	439 601	544 532
Financial assets at amortised cost	8	3 219 617	3 072 247
Debt securities	*8*	*385 640*	*537 634*
Loans and advances	*8*	*2 797 304*	*2 482 481*
thereof: Loans and advances to banks	8	16 469	23 099
thereof: Loans and advances to customers	8	2 780 835	2 459 382
Other financial assets	*8*	*36 673*	*52 132*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9	2 276	1 965
Investments in subsidiaries, joint ventures and associates	10	1 515	1 073
Tangible assets	11	62 152	49 073
Intangible assets	12	59 839	46 538
Current tax assets		307	1 837
Deferred tax assets	13	25 526	18 970
Other assets	14	17 510	24 158
TOTAL ASSETS		**4 466 152**	**4 411 256**
Liabilities			
Financial liabilities held for trading	5	746	3 968
Financial liabilities at amortised cost	15	3 726 677	3 709 554
Deposits	*15*	*3 668 402*	*3 659 745*
Other financial liabilities	*15*	*58 275*	*49 809*
Derivatives – Hedge accounting	9	10 318	9 420
Provisions	16	28 633	26 019
Current tax liabilities		2 000	872
Other liabilities	17	15 048	18 923
Total liabilities		**3 783 422**	**3 768 756**
Total equity	**18**	**682 730**	**642 500**
TOTAL EQUITY AND LIABILITIES		**4 466 152**	**4 411 256**

These consolidated financial statements, which include the notes on pages 16-71, were approved by the Board of Directors on 10 March 2021

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

B. Consolidated statement of profit or loss and other comprehensive income

EUR'000	Notes	2020	2019
Statement of profit or loss			
Net interest income	21	154 698	168 339
Interest income	*21*	*163 107*	*178 591*
Interest expenses	*21*	*(8 409)*	*(10 252)*
Net fee and commission income	22	47 759	39 169
Fee and commission income	*22*	*80 686*	*72 659*
Fee and commission expenses	*22*	*(32 927)*	*(33 490)*
Dividend income	23	15	191
Net gains/(losses) from financial transactions	24	1 269	8 420
Net other operating expenses	25	(4 051)	(4 857)
Administrative expenses	26	(91 804)	(108 279)
Depreciation	27	(22 512)	(20 515)
Net earned premium	28	16 748	16 208
Claim costs	29	(7 787)	(6 729)
Operating profit before impairment losses and provisions		**94 335**	**91 947**
Release/(creation) of provisions	30	684	729
Net impairment of financial assets not valued at fair value through profit and loss	30	(46 477)	(37 980)
Net impairment on non-financial assets	30	(681)	142
Share of the profit of investments in joint ventures and associates	10	622	170
Profit before tax		**48 483**	**55 008**
Income tax	31	(7 884)	(17 089)
PROFIT AFTER TAX		**40 599**	**37 919**
Attributable to equity holders of the parent		40 657	37 930
Attributable to non-controlling interest		(58)	(11)
Statement of other comprehensive income			
Items that may be reclassified to profit or loss		1 598	(2 439)
Revaluation of debt securities at fair value through other comprehensive income		*4 139*	*(1 220)*
Creation/(release) of impairment losses for debt securities at fair value through other comprehensive income		*(741)*	*143*
Revaluation of hedging instruments		*(1 351)*	*(2 027)*
Deferred tax related to items that may be reclassified to profit or loss		*(440)*	*648*
Foreign currency translation		*(9)*	*17*
Items that may not be reclassified to profit or loss		(1 375)	665
Revaluation of equity instruments at fair value through other comprehensive income		*(1 749)*	*857*
Deferred tax related to items that may not be reclassified to profit or loss		*374*	*(192)*
Total other comprehensive income		**223**	**(1 774)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**40 822**	**36 145**
Attributable to equity holders of the parent		40 894	36 176
Attributable to non-controlling interest		(72)	(31)
Earnings per share			
Profit after tax attributable to equity holders of the parent		40 657	37 930
Number of issued shares		330 899	330 899
Earnings per share in EUR		**122.87**	**114.63**

The notes on pages 16-71 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 2020	**366 305**	**738**	**55 995**	**7 191**	**7**	**208 062**	**638 298**	**4 202**	**642 500**
Total comprehensive income	**-**	**-**	**-**	**246**	**(9)**	**40 657**	**40 894**	**(72)**	**40 822**
Profit after tax	-	-	-	-	-	40 657	40 657	(58)	40 599
Items that may be reclassified to profit or loss	-	-	-	1 621	(9)	-	1 612	(14)	1 598
Items that may not be reclassified to profit or loss	-	-	-	(1 375)	-	-	(1 375)	-	(1 375)
Other transactions	**-**	**-**	**4 742**	**-**	**-**	**(5 159)**	**(417)**	**(175)**	**(592)**
Transfer to legal reserve fund	-	-	4 742	-	-	(5 209)	(467)	467	-
Dividends	-	-	-	-	-	-	-	(590)	(590)
Other	-	-	-	-	-	50	50	(52)	(2)
Closing balance as of 31 December 2020	**366 305**	**738**	**60 737**	**7 437**	**(2)**	**243 560**	**678 775**	**3 955**	**682 730**

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
Restated opening balance as of 1 January 2018	**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**

The notes on pages 16-71 are an integral part of these consolidated financial statements.

D. Consolidated statement of cash-flows

EUR'000	**Notes**	**31.12.2020**	**31.12.2019**
Profit before tax		**48 483**	**55 008**
Adjustments:			
Net interest income		(154 698)	(168 339)
Dividend income		(15)	(191)
Depreciation		22 512	20 515
Release/(creation) of provisions		(684)	(729)
Creation of insurance provisions		3 557	2 835
Gains/(losses) on derecognition of non-financial assets, net		265	(372)
Net impairment of financial assets not valued at fair value through profit and loss		46 477	37 980
Net impairment on non-financial assets		681	(142)
Share of profit in jointly controlled entities and associates		(622)	(170)
Cash flows from operating activities before changes in working capital		**(34 044)**	**(53 605)**
(Increase)/decrease in operating assets:			
Cash balances at central banks		40 661	(23 653)
Financial assets held for trading		(1 627)	778
Non-trading financial assets mandatorily at fair value through profit or loss		(46 012)	(48 217)
Financial assets at amortised cost		(336 073)	140 076
Loans and advances		*(351 523)*	*137 150*
Other financial assets		*15 459*	*2 926*
Other assets		6 648	(5 202)
Increase/(decrease) in operating liabilities:			
Financial liabilities held for trading		(3 222)	3 499
Financial liabilities measured at amortised cost, excl. sub-debt, received loans and lease liabilities		17 219	65 914
Deposits		*16 290*	*65 744*
Other financial liabilities		*929*	*170*
Derivatives – Hedge accounting		898	3 813
Other liabilities		(3 876)	5 558
Cash flows from operating activities before interest and income tax		**(359 428)**	**88 961**
Interest received		141 008	171 101
Interest paid		(4 897)	(7 675)
Income tax paid		(11 848)	(21 186)
Net cash flows from/(used in) operating activities		***(235 165)***	***231 201***
Cash flows from investing activities			
Financial assets at amortised cost - debt securities			
Purchase		(28 521)	(206 475)
Proceeds from sale and maturity		175 472	91 727
Interest received		14 878	14 951
Financial assets at fair value through other comprehensive income - debt securities			
Purchase		(30 835)	(146 914)
Proceeds from sale and maturity		131 704	104 502
Interest received		13 286	15 048
Tangible and intangible assets			
Purchase		(43 937)	(27 387)
Proceeds from sale		691	1 750
Net cash flows from/(used in) investing activities		***232 738***	***(152 798)***
Cash flows from financing activities			
Dividends paid			
Owners of the parent		-	(34 882)
Non-controlling interests		(590)	(394)
Financial liabilities at amortised cost - subordinated debt			
Interest paid		(481)	(481)
Financial liabilities at amortised cost - received loans			
Interest received		-	3 394
Loan repayments		(9 879)	(13 232)
Interest paid		(283)	(377)
Financial liabilities at amortised cost - lease liabilities			
Lease payments		(5 881)	(5 312)
Interest expense		(501)	(398)
Net cash flows from/(used in) financing activities		***(17 615)***	***(51 682)***
Net increase/(decrease) in cash and cash equivalents	**4**	**(20 042)**	**26 721**
Cash and cash equivalents at the beginning of the period	**4**	**73 235**	**46 514**
Cash and cash equivalents at the end of the period	**4**	**53 193**	**73 235**

The notes on pages 16-71 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:

Name of shareholder	Address	31.12.2020 Number of shares	31.12.2020 Ownership in %	31.12.2019 Number of shares	31.12.2019 Ownership in %
J&T FINANCE GROUP SE	Sokolovská 700/113a, 186 00 Prague, Czech Republic	325 794	98.45%	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%
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%**

On 1 January 2020, the Bank's shareholder structure changed when PBI, a.s. merged with its 100% parent company J&T FINANCE GROUP SE. Through this merger, J&T FINANCE GROUP SE acquired a further 34% of the shares and voting rights in Poštová banka, increasing its direct share in the bank's share capital to 98.457%.

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

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by the Board of Directors on 11 March 2020.

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

2. Accounting policies

2.1 Basis of preparation of the consolidated financial statements

The 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.

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

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

2.2 Subsidiaries, joint ventures and associates

As at 31 December 2020 the Bank held significant direct or indirect 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%
Cards&Co, a.s.	Information technology services industry	100.00%
365.nadácia	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%

During November 2020, the Bank acquired a 100% share and control in Cards&Co.

365.nadácia is not included in the consolidated financial statements.

2.3 Changes in accounting policies

The application of other accounting standards since 1 January 2020 had no significant impact on the financial statements of the Group.

2.4 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 exists, 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*

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**
	31.12.2020	**31.12.2019**	
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.	x	100.00%	full consolidation
Cards&Co, a.s.	100.00%	x	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 expenses 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 or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss
- Net gains or losses on financial assets and liabilities held for trading
- Net gains or losses on non-trading financial assets mandatorily at fair value through profit or loss
- Net gains or losses) on financial assets and liabilities designated at fair value through profit or loss
- Net gains or losses from hedge accounting
- Foreign exchange differences

(f) Dividend income

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

(g) 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.

(h) 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 Group 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 collect 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 incurs 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 are the same as for financial assets held for trading.

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

Under IFRS 9, it is permitted to irrevocably designate financial assets at FVPL, if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different 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 rate 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. When this election is used, fair value gains and losses are recognised in OCI and are never reclassified to profit or loss, including derecognition. 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.

No expected credit losses are reported for equity instruments.

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 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 *35. 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.

v. Modifications of financial assets

If there is a change in the contractual terms, the Group evaluates whether there is a significant change in the contractual cash flows. Significant modifications to cash flows result in the derecognition of the original financial asset and a new financial asset is recognised at fair value.

If the modification does not result in the derecognition of the financial asset, the Group recalculates the gross carrying amount as the present value of changed cash flows discounted by the original EIR. Difference between the new and the original values is recognised in the income statement as *"Net profit/(loss) from the modification of financial assets".* The impact of the modifications was insignificant during the reported accounting periods.

(i) 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 consider 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 *9. 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 9. Hedging derivatives*.

If the derivative expires or is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting. 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.

(j) Tangible and intangible assets

i. Recognition and measurement

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

(k) Right-of-use assets and lease liabilities

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. *11 Tangible assets,* and lease liabilities are presented in Note *15 Financial liabilities at amortised cost*. Interest expenses relating to lease liabilities are presented separately from depreciation relating to right-of-use assets.

(l) Impairment losses on non-financial assets

The carrying amounts of the 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.

(m) 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 measured 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.

(n) 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.

Provisions for off-balance sheet exposures arising from provided loan and other commitments and from provided guarantees are calculated in accordance with IFRS 9 on the basis of the same principles as the ECL for financial assets.

(o) 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.

(p) 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 insured, 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.

On 1 January 2019, Act no. 213/2018 Coll. On insurance tax and on amendments to certain acts came into effect. The subject of the law is the introduction of an insurance tax, which is subject to insurance in the non-life insurance sectors. The insurance tax has the character of an indirect tax and it is paid, in principle, by the insurance companies, which collect it from taxpayers (policyholders) together with the premium. Insurance tax is initially recognised as part of gross premiums written, subsequently gross written premiums are reduced by the value of the tax. The insurance tax therefore has no effect on the reported gross written premium, as it is an indirect tax.

This Act replaced the 8% levy on non-life insurance premiums received under the Insurance Act, except for compulsory motor insurance, which is not provided by the Group.

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 settlement 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, considering 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 considering 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.

(q) 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 capitalisation (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).

(r) 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.

(s) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments were not effective for the reporting period ending 31 December 2020 and were not applied in these financial statements:

Interest Rate Benchmark Reform („IBOR reform“) – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities.

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

The Group applied the Phase 2 amendments retrospectively. However, in line with the exceptions set out in the Phase 2 amendments, the Group has decided not to adjust the previous period to reflect the application of those amendments, including the failure to provide additional disclosures for 2019. As a result, it does not affect opening equity balances resulting from retrospective application.

Phase 2 amendments provide practical relief from certain standards requirements. These concessions relate to changes in financial instruments, lease contracts or hedging relationships when the reference interest rate in the contract is replaced by a new alternative reference rate. If the basis for determining the contractual cash flows of a financial instrument changes as a direct result of a reform of reference interest rates and takes place on an economically equivalent basis, Phase 2 amendments provide practical relief for updating the effective interest rate of a financial instrument before applying the existing standard requirements. The amendments also provide an exemption from the application of the revised discount rate, which reflects the change in the interest rate when revaluation of the lease liability due to the lease adjustment required by the interest rate reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when the interest rate of a hedged item required by a reform and/or a hedging instrument changes and, as a result, the hedging relationship can be continued without interruption.

The Group actively monitors the development of benchmark regulation (IBOR) and guidelines by the European institutions. As part of this change in regulation, the Group takes an active approach to the analysis of products and IT solutions. An identification of specific impacts on products and IT solutions and the time schedule for the implementation of this regulation during 2021 represent part of the analysis.

The following are other new standards, interpretations and amendments that are not yet effective for the accounting period ending 31 December 2020 and have not been applied in the preparation of the financial statements:

- *Amendments to IAS 1 Presentation of financial statements classification of liabilities as current or non-current;*
- *Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions;*
- *Amendments to IAS 37 Provisions, contingent liabilities and contingent assets onerous contracts – cost of fulfilling a contract.*
- *Annual Improvements to IFRS Standards 2018-2020* – Amendments to IFRS 9 Financial Instruments - The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf (effective for annual periods beginning on or after 1 January 2022).

The Group does not expect that the new standards and amendments will have a significant impact on the financial statements when initially applied.

3. Use of estimates and judgements

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

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

Expected credit losses

The measurement of ECL 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 *35. 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 *33. 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 cannot 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 *39. Insurance risk*.

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

The compulsory minimum reserve account is reported within cash balances at central banks and is held at the National Bank of Slovakia ('NBS'). The account contains funds from the payment system, as well as funds that the 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	31.12.2020	31.12.2019
Cash on hand	25 880	27 801
Cash balances at central banks	243 048	283 699
Other demand deposits	27 313	45 434
Total	**296 241**	**356 934**

The above-mentioned financial assets are not restricted.

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

EUR'000	31.12.2020	31.12.2019	31.12.2018
Cash on hand	25 880	27 801	26 032
Other demand deposits	27 313	45 434	20 482
Total	**53 193**	**73 235**	**46 514**

5. Financial assets and liabilities held for trading

EUR'000	31.12.2020	31.12.2019
Financial assets held for trading		
Derivatives	**2 648**	**1 021**
Foreign exchange	2 648	1 021
Total	**2 648**	**1 021**
Financial liabilities held for trading		
Derivatives	**746**	**3 968**
Foreign exchange	746	3 968
Total	**746**	**3 968**

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

EUR'000	31.12.2020			31.12.2019		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives						
Foreign exchange	214 006	2 648	746	342 052	1 021	3 968
Total	**214 006**	**2 648**	**746**	**342 052**	**1 021**	**3 968**

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

EUR'000	31.12.2020	31.12.2019
Equity instruments	**338 606**	**292 662**
Shares	2 980	-
Share certificates	335 626	292 662
Loans and advances	**314**	**246**
Total	**338 920**	**292 908**

7. Financial assets at fair value through other comprehensive income

EUR'000	31.12.2020	31.12.2019
Equity instruments	**65**	**2 892**
Shares	65	2 892
Debt securities	**439 536**	**541 640**
Central banks	-	-
General governments	298 201	333 776
Credit institutions	48 816	48 295
Other financial corporations	19 784	50 943
Non-financial corporations	72 735	108 626
Total	**439 601**	**544 532**
Impairment allowances to debt securities in OCI	(477)	(1 218)

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 2020	**(1 218)**	**-**	**-**	**-**	**(1 218)**
Increases due to origination and acquisition	(51)	-	-	-	(51)
Decreases due to derecognition	301	-	-	-	301
Changes due to change in credit risk (net)	490	-	-	-	490
Transfers:	-	-	-	-	-
to/(from) Stage 1	*x*	-	-	-	-
to/(from) Stage 2	-	*x*	-	-	-
to/(from) Stage 3	-	-	*x*	-	-
Changes due to movements in FX rates	1	-	-	-	1
As of 31 December 2020	**(477)**	**-**	**-**	**-**	**(477)**

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)**

8. Financial assets at amortised cost

EUR'000	Gross value		Impairment allowances		Amortized costs	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Debt securities	**393 361**	**545 164**	**(7 721)**	**(7 530)**	**385 640**	**537 634**
Central banks	983	988	-	-	983	988
General governments	290 512	432 494	(90)	(132)	290 422	432 362
Credit institutions	30 986	30 983	(5)	(13)	30 981	30 970
Other financial corporations	5 810	4 302	-	-	5 810	4 302
Non-financial corporations	65 070	76 397	(7 626)	(7 385)	57 444	69 012
Loans and advances	**3 024 686**	**2 690 213**	**(227 382)**	**(207 732)**	**2 797 304**	**2 482 481**
Central banks	-	409	-	-	-	409
General governments	-	-	-	-	-	-
Credit institutions	16 489	22 701	(20)	(11)	16 469	22 690
Other financial corporations	371 108	276 549	(11 483)	(13 767)	359 625	262 782
Non-financial corporations	1 115 240	993 963	(88 131)	(70 735)	1 027 109	923 228
Households	1 521 849	1 396 591	(127 748)	(123 219)	1 394 101	1 273 372
Other financial assets	**37 823**	**53 326**	**(1 150)**	**(1 194)**	**36 673**	**52 132**
Total	**3 455 870**	**3 288 703**	**(236 253)**	**(216 456)**	**3 219 617**	**3 072 247**

Loans and advances include receivables from financial leasing:

EUR'000	31.12.2020	31.12.2019
Minimum value of leasing payments		
Receivables from leasing	14 077	8 626
Up to 1 year	*4 702*	*3 483*
1-5 years	*8 765*	*4 880*
Over 5 years	*610*	*263*
Unrealized income on finance leases	(1 428)	(780)
Present value of future lease payments	**12 649**	**7 846**
Impairment allowances	(53)	(312)
Total	**12 596**	**7 534**

EUR'000	31.12.2020	31.12.2019
Present value of future lease payments		
Receivables from leasing	12 649	7 846
Up to 1 year	*4 142*	*3 138*
1-5 years	*7 924*	*4 451*
Over 5 years	*583*	*257*
Present value of future lease payments	**12 649**	**7 846**
Impairment allowances	(53)	(312)
Total	**12 596**	**7 534**

Other financial assets comprise the following:

EUR'000	31.12.2020	31.12.2019
Other financial assets, gross	**37 823**	**53 326**
Clearing and settlement items	3 478	5 243
Cash collateral	6 235	6 805
Tax receivables	482	262
Trade receivables	9 438	6 209
Other	18 190	34 807
Impairment allowances	**(1 150)**	**(1 194)**
Total	**36 673**	**52 132**

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

EUR'000	Gross value				Impairment allowances			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**337 960**	**55 401**	**-**	**-**	**(95)**	**(7 626)**	**-**	**-**
Central banks	983	-	-	-	-	-	-	-
General governments	290 512	-	-	-	(90)	-	-	-
Credit institutions	30 986	-	-	-	(5)	-	-	-
Other financial corporations	5 810	-	-	-	-	-	-	-
Non-financial corporations	9 669	55 401	-	-	-	(7 626)	-	-
Loans and advances	**2 316 935**	**495 637**	**181 414**	**30 700**	**(23 036)**	**(41 260)**	**(152 219)**	**(10 867)**
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	16 489	-	-	-	(20)	-	-	-
Other financial corporations	357 025	138	29	13 916	(2 381)	(28)	(26)	(9 048)
Non-financial corporations	806 903	232 501	59 103	16 733	(14 503)	(18 185)	(53 647)	(1 796)
Households	1 136 518	262 998	122 282	51	(6 132)	(23 047)	(98 546)	(23)
Other financial assets	**-**	**37 823**	**-**	**-**	**-**	**(1 150)**	**-**	**-**
Total	**2 654 895**	**588 861**	**181 414**	**30 700**	**(23 131)**	**(50 036)**	**(152 219)**	**(10 867)**

31.12.2019	Gross value				Impairment allowances			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**478 482**	**66 682**	**-**	**-**	**(145)**	**(7 385)**	**-**	**-**
Central banks	988	-	-	-	-	-	-	-
General governments	432 494	-	-	-	(132)	-	-	-
Credit institutions	30 983	-	-	-	(13)	-	-	-
Other financial corporations	4 302	-	-	-	-	-	-	-
Non-financial corporations	9 715	66 682	-	-	-	(7 385)	-	-
Loans and advances	**2 285 077**	**198 196**	**169 530**	**37 410**	**(26 864)**	**(22 743)**	**(140 539)**	**(17 586)**
Central banks	409	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	22 700	1	-	-	(11)	-	-	-
Other financial corporations	261 220	680	76	14 573	(1 841)	-	(21)	(11 905)
Non-financial corporations	831 234	87 856	52 061	22 812	(14 419)	(3 838)	(46 809)	(5 669)
Households	1 169 514	109 659	117 393	25	(10 593)	(18 905)	(93 709)	(12)
Other financial assets	**-**	**53 326**	**-**	**-**	**-**	**(1 194)**	**-**	**-**
Total	**2 763 559**	**318 204**	**169 530**	**37 410**	**(27 009)**	**(31 322)**	**(140 539)**	**(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 2020	**(145)**	**(7 385)**	**-**	**-**	**(7 530)**
Increases due to origination and acquisition	(15)	-	-	-	(15)
Decreases due to derecognition	22	-	-	-	22
Changes due to change in credit risk (net)	43	(241)	-	-	(198)
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 2020	**(95)**	**(7 626)**	**-**	**-**	**(7 721)**

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*	-	-
Changes due to movements in FX rates	-	-	-	-	-
As of 31 December 2019	**(145)**	**(7 385)**	**-**	**-**	**(7 530)**

EUR'000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
As of 1 January 2020	**(26 864)**	**(22 743)**	**(140 539)**	**(17 586)**	**(207 732)**
Increases due to origination and acquisition	(8 514)	-	-	-	(8 514)
Decreases due to derecognition	2 650	1 359	31 081	4	35 094
Changes due to change in credit risk (net)	12 471	(39 242)	(26 221)	6 214	(46 778)
Unwinding of discount	-	-	-	-	-
Transfers:	(2 833)	19 366	(16 533)	-	-
to/(from) Stage 1	*x*	*3 320*	*(487)*	-	*2 833*
to/(from) Stage 2	*(3 320)*	*x*	*(16 046)*	-	*(19 366)*
to/(from) Stage 3	*487*	*16 046*	*x*	-	*16 533*
Changes due to movements in FX rates	54	-	(7)	501	548
As of 31 December 2020	**(23 036)**	**(41 260)**	**(152 219)**	**(10 867)**	**(227 382)**

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
Changes due to movements in FX rates	(17)	-	(102)	(28)	(147)
As of 31 December 2019	**(26 864)**	**(22 743)**	**(140 539)**	**(17 586)**	**(207 732)**

9. 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	31.12.2020			31.12.2019		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives – Hedge accounting	**174 476**	**-**	**7 792**	**253 976**	**-**	**7 183**
Interest rate	174 476	-	7 792	253 976	-	7 183
Portfolio fair value hedges of interest rate risk	**93 400**	**-**	**2 526**	**93 400**	**-**	**2 237**
Total	**267 876**	**-**	**10 318**	**347 376**	**-**	**9 420**

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

EUR'000	Carrying amount		Amount of fair value hedge adjustments		Line item in the statement of financial position in which the hedged item is included
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	
Fair value hedges					
Portfolio hedge of interest rate risk	197 635	184 064	2 276	1 965	Financial assets at amortised cost
Interest rate	191 489	277 130	(5 739)	(4 388)	Revaluation of FVOCI financial assets

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

EUR'000	2020	2019
Fair value changes of the hedging instrument	(1 625)	(3 074)
Fair value changes of the hedged item attributable to the hedged risk	1 662	3 123
Total	**37**	**49**

10. Investments in joint ventures and associates

EUR'000	SPPS		ART FOND	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Statement on financial position				
Total assets	5 317	4 236	1 005	1 052
Total liabilities	2 463	2 529	1	1
Net assets	**2 854**	**1 707**	**1 004**	**1 051**
Group share on net assets	**1 142**	**683**	**373**	**390**

EUR'000	SPPS		ART FOND	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Statement of profit or loss				
Profit before tax	2 002	577	(43)	(16)
Profit after tax	1 594	439	(43)	(16)
Total comprehensive income for the year	**1 594**	**439**	**(43)**	**(16)**
Group share of profit/(loss) after tax	**638**	**176**	**(16)**	**(6)**

Total share in net assets and net profit of the Group, after tax:

EUR'000	31.12.2020	31.12.2019
Net assets		
Jointly controlled entity SPPS, a.s.	1 142	683
Associate ART FOND, a.s.	373	390
Total	**1 515**	**1 073**

EUR'000	2020	2019
Profit after tax		
Jointly controlled entity SPPS, a.s.	638	176
Associate ART FOND, a.s.	(16)	(6)
Total	**622**	**170**

11. Tangible assets

EUR'000	31.12.2020	31.12.2019
Tangible assets owned	28 940	23 187
Property, plant and equipment	*28 940*	*23 187*
Right of use assets	33 212	25 886
Total	**62 152**	**49 073**

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 2020	22 717	11 521	16 567	1 688	518	53 011
Additions	-	38	13	1 502	10 486	12 039
Additions from business combinations	-	-	1 260	-	306	1 566
Transfers	1 478	1 718	6 215	196	(9 607)	-
Disposals	(469)	(684)	(1 514)	(966)	(396)	(4 029)
As of 31 December 2020	**23 726**	**12 593**	**22 541**	**2 420**	**1 307**	**62 587**
Accumulated depreciation						
As of 1 January 2020	(9 334)	(8 154)	(10 852)	(837)	-	(29 177)
Additions from business combinations	-	-	(662)	-	-	(662)
Depreciation for the year	(1 567)	(1 702)	(2 131)	(394)	-	(5 794)
Disposals	317	646	1 489	475	-	2 927
As of 31 December 2020	**(10 584)**	**(9 210)**	**(12 156)**	**(756)**	**-**	**(32 706)**
Impairment allowances	**(413)**	**-**	**(527)**	**-**	**-**	**(940)**
Carrying amount as at 31.12.2020	**12 729**	**3 382**	**9 858**	**1 664**	**1 307**	**28 940**

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 from business combinations	-	-	-	-	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 allowances	**(593)**	**-**	**(53)**	**-**	**-**	**(646)**
Carrying amount as at 31.12.2019	**12 790**	**3 367**	**5 661**	**851**	**518**	**23 187**

EUR'000	Right-of-use assets			
	Land and buildings	Hardware	Fittings and other equipment	Total
Cost				
As of 1 January 2020	26 901	211	4 470	31 582
Additions	2 448	-	88	2 536
Remeasurements due to contract modification	10 891	-	-	10 891
Disposals	(459)	-	(34)	(493)
As of 31 December 2020	**39 781**	**211**	**4 524**	**44 516**
Accumulated depreciation				
As of 1 January 2020	(4 934)	(53)	(709)	(5 696)
Depreciation for the year	(5 027)	(53)	(801)	(5 881)
Remeasurements due to contract modification	-	-	-	-
Disposals	262	-	10	272
As of 31 December 2020	**(9 699)**	**(106)**	**(1 500)**	**(11 305)**
Impairment allowances	**-**	**-**	**-**	**-**
Carrying amount as at 31.12.2020	**30 082**	**105**	**3 025**	**33 212**

EUR'000	**Right-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 due to contract modification	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 due to contract modification	(420)	-	-	(420)
Disposals	30	-	6	36
As of 31 December 2019	**(4 934)**	**(53)**	**(709)**	**(5 696)**
Impairment allowances	**-**	**-**	**-**	**-**
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	**31.12.2020**	**31.12.2019**
Opening balance as at 1 January	(646)	(803)
Net creation/(release) of impairment losses	(294)	157
Closing balance	**(940)**	**(646)**

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

EUR'000	**31.12.2020**	**31.12.2019**
Costs of fully depreaciated tangible assets in use	11 352	10 557

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	**31.12.2020**	**31.12.2019**
Insurance amount of fixed assets	52 916	45 312

12. Intangible assets

EUR'000	**Goodwill**	**VOBA**	**DAC**	**Software**	**Other intangible assets**	**Assets not yet in use**	**Total**
Cost							
As of 1 January 2020	11 324	3 168	3 267	75 068	268	2 048	95 143
Additions	-	-	1 798	758	133	15 977	18 666
Additions from business combinations	3 876	-	-	6 695	-	1 095	11 666
Additions from purchase of part of business	-	-	-	-	-	-	-
Transfers	-	-	-	12 245	-	(12 245)	-
Disposals	-	(3 168)	(1 436)	(4 197)	-	(881)	(9 682)
As of 31 December 2020	**15 200**	**-**	**3 629**	**90 569**	**401**	**5 994**	**115 793**
Accumulated amortisation							
As of 1 January 2020	-	(3 168)	-	(42 406)	(106)	-	(45 680)
Additions from business combinations	-	-	-	(3 394)	-	-	(3 394)
Additions from purchase of part of business	-	-	-	-	-	-	-
Amortisation for the year	-	-	-	(10 795)	(42)	-	(10 837)
Disposals	-	3 168	-	4 096	-	-	7 264
As of 31 December 2020	**-**	**-**	**-**	**(52 499)**	**(148)**	**-**	**(52 647)**
Impairment allowances	**(2 924)**	**-**	**-**	**(325)**	**-**	**(58)**	**(3 307)**
Carrying amount as at 31.12.2020	**12 276**	**-**	**3 629**	**37 745**	**253**	**5 936**	**59 839**

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 allowances	**(2 924)**	**-**	**-**	**-**	**-**	**-**	**(2 924)**
Carrying amount as at 31.12.2019	**8 400**	**-**	**3 267**	**32 661**	**162**	**2 048**	**46 538**

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

EUR'000	31.12.2020	31.12.2019
Costs of fully amortized intangible assets in use	10 624	12 320

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 the subsidiaries to be separate cash generating units.

The recoverable amount of the subsidiaries was determined by the value-in-use method using expected future cash flows based on the most recent financial and business plans of these companies. The discount rate applied to future cash flows after the approved plan period is adjusted by the projected growth rate. Both the discount rate and the projected growth rate were determined with respect to market share, planning deviation, company size and area of operation. The Group used the following discount rates:

	31.12.2020	31.12.2019
Prvá penzijná správcovská spoločnosť Poštovej banky, správ. spol., a. s.	8.05%	7.96%
Poštová poisťovňa, a.s.	x	7.33%
Cards&Co, a.s.	10.39%	x
Amico finance, a.s.	8.37%	8.15%

13. Deferred tax assets and liabilities

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

	31.12.2020	31.12.2019
Companies in the Slovak Republic	21%	21%
Branch in the Czech Republic	19%	19%

EUR'000	31.12.2020	31.12.2019
Companies in the Slovak Republic		
Impairment allowances - financial assets at AC	22 782	16 014
Impairment allowances - other	7	-
Provisions for off-balance sheet exposures	169	504
Financial assets at FVOCI	(1 648)	(1 829)
Tangible assets	125	(116)
Other	3 960	4 272
Total	**25 395**	**18 845**
Branch in the Czech Republic		
Provisions for off-balance sheet exposures	117	106
Tangible assets	(1)	(1)
Other	15	20
Total	**131**	**125**
Total deferred tax assets	**25 526**	**18 970**

Movements on deferred tax accounts are as follows:

EUR'000	Note	31.12.2020	31.12.2019
Opening balance as at 1 January		18 970	18 505
Through profit or loss	31	6 622	9
Through other comprehensive income		(66)	456
Closing balance as at 31 December		**25 526**	**18 970**

The following table summarises the value of unrecognised deferred tax. For these items, the Group does not expect taxable profits to be made in the future against which the receivable can be claimed.

EUR'000	31.12.2020	31.12.2019
Tax losses	1 985	2 709

14. Other assets

EUR'000	31.12.2020	31.12.2019
Deferred expenses	10 184	12 403
Accrued income	1 453	866
Inventories	584	675
Reinsurance assets	215	216
Prepayments	5 074	9 995
Other	-	3
Total	**17 510**	**24 158**

15. Financial liabilities measured at amortised cost

EUR'000	31.12.2020	31.12.2019
Deposits	**3 668 402**	**3 659 745**
General governments	3 390	3 409
Credit institutions	36 124	34 012
Other financial corporations	193 141	151 098
Non-financial corporations	160 312	331 940
Households	3 275 435	3 139 286
Other financial liabilities	**58 275**	**49 809**
Clearing and settlement items	11 796	10 394
Liabilities to employees	4 509	4 809
Liabilities from social and health insurance and social fund	1 848	1 929
Tax liabilities	1 249	1 446
Received prepayments	105	39
Liabilities from dividends	28	28
Lease liabilities	33 590	26 053
Other creditors	5 150	5 111
Total	**3 726 677**	**3 709 554**

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

EUR'000	31.12.2020	31.12.2019
Subordinated debt	8 014	8 014
Other received loans	10 100	19 979

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	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Opening balance as at 1 January	8 014	8 013	19 979	29 817
Loans received	-	-	-	3 394
Loan repayments	-	-	(9 879)	(13 232)
Interest expenses	481	482	283	377
Interest paid	(481)	(481)	(283)	(377)
Closing balance	**8 014**	**8 014**	**10 100**	**19 979**

16. Provisions

EUR'000	31.12.2020	31.12.2019
Commitments and guarantees given	1 481	2 757
Loan commitments	*792*	*2 032*
Guarantees given	*689*	*725*
Other commitments given	-	-
Other provisions	1 106	534
Insurance provisions	26 046	22 728
Life insurance	*24 307*	*20 722*
Unearned premium	*454*	*533*
Provision for claims	*1 285*	*1 473*
Total	**28 633**	**26 019**

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 2020	**1 568**	**695**	**494**	**-**	**2 757**
Increases due to origination and acquisition	2 716	-	-	-	2 716
Decreases due to derecognition	(2 695)	(789)	(511)	-	(3 995)
Changes due to change in credit risk (net)	(1 142)	511	637	-	6
Transfers:	(22)	22	-	-	-
to/(from) Stage 1	*x*	*22*	-	-	*22*
to/(from)Stage 2	*(22)*	*x*	-	-	*(22)*
to/(from) Stage 3	-	-	x	-	-
Changes due to movements in FX rates	(3)	-	-	-	(3)
As of 31 December 2020	**422**	**439**	**620**	**-**	**1 481**

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**

Movements in the insurance provisions were as follows:

EUR'000	Life insurance	Unearned premium	Provision for claims	Total
As of 1 January 2019	**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**
Additions, including increases in existing provisions	6 645	832	7 072	14 549
(-) Unused amounts reversed during the period	(3 060)	(911)	(7 260)	(11 231)
As of 31 December 2020	**24 307**	**454**	**1 285**	**26 046**

17. Other liabilities

EUR'000	31.12.2020	31.12.2019
Estimated payables (PEREX, OPEX)	14 213	18 183
Deferred income	486	416
Accrued expenses	349	324
Total	**15 048**	**18 923**

18. Equity

a) Share capital

	31.12.2020	31.12.2019
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.

19. Off-balance sheet items

a) Loan commitments, financial guarantees and other commitments given

EUR'000	31.12.2020	31.12.2019
Loan commitments given	219 573	326 145
Financial guarantees given	18 236	27 210
Total	**237 809**	**353 355**

b) Assets management and custody

EUR'000	31.12.2020	31.12.2019
Asset management	2 497 628	2 341 528
Custody assets	100 592	159 609
Total	**2 598 220**	**2 501 137**

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	31.12.2020	31.12.2019
Financial assets at fair value through other comprehensive income	42 291	37 424
Financial assets at amortised cost	298 644	187 260
Total	**340 935**	**224 684**

d) Transferred financial assets

As at the end of the reporting periods, the Group did not record transferred financial assets which were not derecognised from the Bank's statement of financial position.

20. 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):

31.12.2020	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	2 648	-	2 648	746	1 881	-	21
Hedging derivatives	-	-	-	-	-	-	-
Total assets	**2 648**	**-**	**2 648**	**746**	**1 881**	**-**	**21**
Financial liabilities							
Derivatives	746	-	746	746	-	-	-
Hedging derivatives	10 318	-	10 318	-	6 472	-	3 846
Total liabilities	**11 064**	**-**	**11 064**	**746**	**6 472**	**-**	**3 846**

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**

21. Net interest income

EUR'000	**2020**	**2019**
Interest income		
Financial assets at fair value through other comprehensive income	6 792	8 680
Financial assets at amortised cost	158 515	171 977
Debt securities	*8 677*	*14 529*
Loans and advances	*149 838*	*157 448*
Derivatives - Hedge accounting, interest rate risk	(2 324)	(2 188)
Other assets	124	122
Cash balances at central banks	*2*	*10*
Other demand deposits	*14*	*-*
Other	*108*	*112*
Total interest income	**163 107**	**178 591**
Interest expenses		
Financial liabilities measured at amortised cost	(8 400)	(10 241)
thereof: lease liabilities	(501)	(398)
Other liabilities	(9)	(11)
Total interest expense	**(8 409)**	**(10 252)**
Net interest income	**154 698**	**168 339**

EUR'000	**2020**	**2019**
Interest income calculated on an EIR	163 107	178 591
Other interest income	-	-
Total interest income	**163 107**	**178 591**

22. Net fee and commission income

EUR'000	2020	2019
Fee and commission income		
Securities	84	57
Clearing and settlement	15 609	15 177
Asset management	24 947	23 730
Custody	2 874	2 423
Payment services	31 322	26 216
Current accounts	*26 370*	*22 929*
Debit cards and other card payments	*385*	*374*
Transfers and other payment orders	*1 885*	*2 104*
Other fee and commission income in relation to payment services	*2 682*	*809*
Loan servicing activities	2 767	2 274
Loan commitments given	901	876
Financial guarantees given	353	323
Other	1 829	1 583
Total fee and commission income	**80 686**	**72 659**
Thereof: Revenue recognised under IFRS 15: Recognition of Revenue from customers contracts	79 432	71 460
Fee and commission expenses		
Clearing and settlement	(21 152)	(18 924)
Custody	(449)	(293)
Loan servicing activities	(2 264)	(1 594)
Financial guarantees received	(98)	-
Other	(8 964)	(12 679)
Total fee and commission expenses	**(32 927)**	**(33 490)**
Net fee and commission income	**47 759**	**39 169**

23. Dividend income

EUR'000	2020	2019
Non-trading financial assets mandatorily at fair value through profit or loss	-	174
Financial assets at fair value through other comprehensive income	15	17
Total	**15**	**191**

24. Net gains/(losses) from financial transactions

EUR'000	2020	2019
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	**538**	**(1 151)**
Financial assets at fair value through other comprehensive income	538	(111)
Equity instruments	*9*	*(66)*
Debt securities	*529*	*(45)*
thereof: reclassified from other comprehensive income	*1 086*	-
Financial assets at amortised cost	-	(1 040)
Loans and advances	-	*(1 040)*
Gains/(losses) on financial assets and liabilities held for trading, net	**12 763**	**(9 743)**
Derivatives	12 763	(9 743)
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	**3 358**	**16 931**
Revaluation gains/(losses)	3 358	16 887
Trading gains/(losses)	-	44
Gains/(losses) on financial assets and liabilities designated at FVPL, net	**207**	**67**
Gains/(losses) from hedge accounting, net	**37**	**49**
Fair value changes of the hedging instrument	(1 625)	(3 074)
Fair value changes of the hedged item attributable to the hedged risk	1 662	3 123
Exchange differences, net	**(15 634)**	**2 267**
Total	**1 269**	**8 420**

25. Net other operating expenses

EUR'000	2020	2019
Bank and insurance companies specific fees	**(8 132)**	**(8 207)**
Special levy for banking institutions	(7 453)	(7 330)
Resolution fund	(341)	(288)
Deposit protection fund	(337)	(300)
Special levy for insurance companies	(1)	(289)
Other income/(expense)	**4 081**	**3 350**
Operating leases other than investment property	826	855
Gains/(losses) on derecognition of non-financial assets, net	(265)	372
Other	3 520	2 123
Total net other operating expense	**(4 051)**	**(4 857)**

26. Administrative expenses

EUR'000	2020	2019
Staff expenses	**(51 413)**	**(60 895)**
Wages and salaries (including bonuses)	(37 025)	(43 768)
Social expenses	(14 388)	(17 127)
Other administrative expenses	**(40 391)**	**(47 384)**
Rental expenses	(3 901)	(5 480)
Short-term lease contracts	*204*	(1 213)
Leases of low-value assets	-	-
Variable lease payments not included in the lease liabilities	*(3 881)*	(4 016)
Other	*(224)*	(251)
Real estate expenses	(944)	(1 193)
IT expenses	(8 367)	(8 569)
Marketing and advertisement	(8 798)	(12 117)
Legal and consulting services	(2 788)	(3 729)
Post and telecommunication	(4 678)	(4 302)
Material consumption	(1 165)	(1 678)
Repair and maintenance	(3 188)	(2 731)
Other admininstrative expenses	(6 562)	(7 585)
Total	**(91 804)**	**(108 279)**

	2020	2019
Number of employees as of balance sheet date	1 456	1 569
Average number of employees for the period	1 502	1 570
thereof, key management	63	48

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

EUR'000	2020	2019
Audit of the financial statements	(384)	(376)
Non-audit services required by EU legislation	(83)	(70)
Other assurance services	(5)	(22)
Total	**(472)**	**(468)**

27. Depreciation

EUR'000	2020	2019
Property, plant and equipment	**(5 794)**	**(5 679)**
Buildings	(1 567)	(1 558)
Hardware	(1 702)	(1 509)
Fittings and other equipment	(2 131)	(2 270)
Operating lease assets	(394)	(342)
Right-of-use assets	**(5 881)**	**(5 312)**
Buildings	(5 027)	(4 544)
Hardware	(53)	(53)
Fittings and other equipment	(801)	(715)
Intangible assets	**(10 837)**	**(9 524)**
VOBA	-	(288)
Software	(10 795)	(9 185)
Other intangible assets	(42)	(51)
Total	**(22 512)**	**(20 515)**

28. Net earned premium

EUR'000	2020	2019
Gross written premium	17 411	16 958
Written premium ceded	(676)	(756)
Change in unearned premium provision	79	13
Change in unearned premium provision	(66)	(7)
Total	**16 748**	**16 208**

29. Claim costs

EUR'000	2020	2019
Claims paid	(4 371)	(4 008)
Claims paid ceded	75	107
Change in life insurance provision	(3 585)	(2 818)
Change in claim provisions	188	106
Change in claim provisions ceded	(94)	(116)
Total	**(7 787)**	**(6 729)**

30. Impairment losses and provisions

EUR'000	2020	2019
Net impairment of financial assets not valued at fair value through profit or loss	**(46 477)**	**(37 980)**
Financial assets at fair value through other comprehensive income	741	(143)
Debt securities	*741*	*(143)*
Financial assets at amortised cost	(47 218)	(37 837)
Debt securities	*(191)*	*(5 124)*
Loans and advances	*(46 164)*	*(32 637)*
Other financial assets	*(863)*	*(76)*
Release/(creation) of provisions	**684**	**729**
Net impairment on non-financial assets	**(681)**	**142**
Total	**(46 474)**	**(37 109)**

31. Income tax

EUR'000	2020	2019
Current income tax	**(14 506)**	**(17 098)**
Current year	(14 090)	(18 230)
Correction of prior period	(336)	1 181
Withholding tax	(80)	(49)
Deferred tax	**6 622**	**9**
Total	**(7 884)**	**(17 089)**

Reconciliation of the effective tax rate is as follows:

EUR'000	2020	2019
Profit before tax	48 483	55 008
Income tax rate	21%	21%
Theoretical income tax	**(10 181)**	**(11 552)**
Non - tax expenses	(5 339)	(6 063)
Impairment allowances	*(1 273)*	*(4 036)*
Other	*(4 066)*	*(2 027)*
Non - taxable income	1 313	1 699
Dividends	*3*	*40*
Other	*1 310*	*1 659*
Deferred tax estimate change	6 622	9
Correction of prior period	(336)	1 181
Withholding tax	(80)	(49)
Other	117	(2 314)
Total	**(7 884)**	**(17 089)**
Effective tax rate	**16.26%**	**31.07%**

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.

32. Related party transactions

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

(a) 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.

31.12.2020	**Shareholders**	**Members of J&T FINANCE GROUP SE**	**Joint ventures**	**Associates**	**Key management and related parties**	**Others**
Assets	**14 980**	**176 359**	**705**	**-**	**1 071**	**34 081**
Other demand deposits	-	186	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at FVPL	-	137 567	-	-	-	-
Financial assets designated at FVPL	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-
Financial assets at amortised cost	14 980	38 606	705	-	1 071	34 081
Debt securities	-	-	-	-	-	-
Loans and advances	*14 980*	*38 481*	-	-	*1 071*	*34 081*
Other financial assets	-	*125*	*705*	-	-	-
Liabilities	**-**	**18 754**	**4 392**	**-**	**1 452**	**1 608**
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	18 754	4 392	-	1 452	1 608
Deposits	-	*18 733*	*4 392*	-	*1 452*	*1 589*
Other financial liabilities	-	*21*	-	-	-	*19*
Derivatives – Hedge accounting	-	-	-	-	-	-
Income/expenses	**-**	**-**	**-**	**-**	**-**	**-**
Net interest income	500	(478)	-	-	10	888
Net fee and commission income	(12)	344	7 898	-	1	68
Net gains/(losses) from financial transactions	-	(1 815)	-	-	-	-
Net other operating expenses	-	-	78	-	-	-
Administrative expenses	-	(83)	-	10	-	(123)

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*	-	-	*1049*	*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	-	-	-	-	-	-
2019						
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)

Remuneration of key management personnel is as follows:

EUR'000	2020	2019
Short-term employee benefits	(1 544)	(1 743)
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-

33. 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. The funds are not listed however they are audited annually. Prices of funds are determined using NAV, with valuation techniques corresponding to the above-mentioned fair value hierarchies.

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

The 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 individual 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	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
ASSETS								
Financial assets held for trading	**-**	**-**	**2 648**	**1 021**	**-**	**-**	**2 648**	**1 021**
Derivatives	-	-	2 648	1 021	-	-	2 648	1 021
Non-trading financial assets mandatorily at FVPL	**11 028**	**17 605**	**327 892**	**275 303**	**-**	**-**	**338 920**	**292 908**
Equity instruments	11 028	17 605	327 578	275 057	-	-	338 606	292 662
Loans and advances	-	-	314	246	-	-	314	246
Financial assets at FVOCI	**351 962**	**433 014**	**78 973**	**2 827**	**8 666**	**108 691**	**439 601**	**544 532**
Equity instruments	-	-	-	2 827	65	65	65	2 892
Debt securities	351 962	433 014	78 973	-	8 601	108 626	439 536	541 640
Total assets	**362 990**	**450 619**	**409 513**	**279 151**	**8 666**	**108 691**	**781 169**	**838 461**

EUR'000	Level 1		Level 2		Level 3		Total	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
LIABILITIES								
Financial liabilities held for trading	**-**	**-**	**746**	**3 968**	**-**	**-**	**746**	**3 968**
Derivatives	-	-	746	3 968	-	-	746	3 968
Derivatives – Hedge accounting	**-**	**-**	**10 318**	**9 420**	**-**	**-**	**10 318**	**9 420**
Total liabilities	**-**	**-**	**11 064**	**13 388**	**-**	**-**	**11 064**	**13 388**

Changes in unobservable inputs (liquidity and/or credit risk margin) by +200 bp would reduce fair value of the financial instruments by EUR -174 thousand and at -200 bp they would increase the fair value by EUR 182 thousand.

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

EUR'000	31 December 2020			31 December 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Financial assets at fair value through OCI	-	-	-	-	-	-
Transfers into the category	23 000	76 942	-	35 096	-	-
Transfers out of the category	(37 825)	-	(62 117)	-	(35 096)	-
Total assets	**(14 825)**	**76 942**	**(62 117)**	**35 096**	**(35 096)**	**-**

The following table shows the reconciliations of the opening and closing balances of the fair values of each category at level 3:

EUR'000	1.1.2020	Gains / (losses) in PL	Gains / (losses) in OCI	Purchases	Maturities and sales	Transfers into Level 3	Transfers out Level 3	31.12.2020
Financial assets at fair value through OCI	108 691	(3 763)	(195)	-	(13 576)	-	(82 491)	8 666
Total	**108 691**	**(3 763)**	**(195)**	**-**	**(13 576)**	**-**	**(82 491)**	**8 666**

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

31 December 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**296 241**	**296 241**	**-**	**296 241**	**-**
Financial assets at amortised cost	**3 219 617**	**3 316 586**	**335 825**	**78 510**	**2 902 251**
Debt securities	385 640	391 073	335 825	-	55 248
Loans and advances	2 797 304	2 888 840	-	41 837	2 847 003
Other financial assets	36 673	36 673	-	36 673	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**3 726 677**	**3 747 906**	**-**	**3 747 906**	**-**
Deposits	3 668 402	3 689 631	-	3 689 631	-
Other financial liabilities	58 275	58 275	-	58 275	-

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**	**472 019**	**75 030**	**2 663 156**
Debt securities	537 634	538 516	472 019	-	66 497
Loans and advances	2 482 481	2 619 557	-	22 898	2 596 659
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	-

34. 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:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;
- Settlement 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.

Limits for settlement represent a part of the process of monitoring the limits. Acceptance of risk resulting from a free settlement trades requires transaction-specific or counterparty-specific approvals 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.

35. 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.

Compliance with the limits is continuously monitored, evaluated and applied into the Group's activities.

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

	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
EUR'000	**Debt securities**		**Loans and advances**		**Debt securities**		**Loan commitments given**		**Financial guarantees given**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Central banks	**983**	**988**	**-**	**409**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	**290 512**	**432 494**	**-**	**-**	**298 201**	**333 776**	**-**	**-**	**-**	**-**
Credit institutions	**30 986**	**30 983**	**16 489**	**22 701**	**48 816**	**48 295**	**-**	**-**	**-**	**-**
Other financial corporations	**5 810**	**4 302**	**371 108**	**276 549**	**19 784**	**50 943**	**61**	**52**	**4 954**	**5 116**
Non-financial corporations	**65 070**	**76 397**	**1 115 240**	**993 963**	**72 735**	**108 626**	**89 316**	**196 478**	**13 282**	**22 094**
A Agriculture, forestry and fishing	-	-	26 096	8 874	-	-	-	-	-	-
B Mining and quarrying	-	-	-	-	-	-	-	-	-	-
C Manufacturing	2 616	2 656	58 096	73 109	3 138	3 020	1 561	1 653	79	68
D Electricity, gas, steam and air conditioning supply	1 063	1 048	198 836	125 929	-	-	74 531	50 003	-	-
E Water supply	-	-	84	51	-	-	-	-	-	-
F Construction	-	-	108 378	59 458	-	-	2 413	24 189	3 457	9 245
G Wholesale and retail trade	-	-	36 615	80 955	-	-	592	3 735	2 078	4 213
H Transport and storage	-	-	2 867	2 519	-	-	21	11 074	247	1 184
I Accommodation and food service activities	-	-	55 802	47 654	37 950	53 111	197	165	-	-
J Information and communication	1 281	1 309	10 973	13 941	-	-	3 000	4 088	-	-
K Financial and insurance activities	4 055	4 042	-	-	8 601	12 415	419	65 138	-	-
L Real estate activities	55 401	66 682	327 035	312 440	-	-	5 898	34 123	-	-
M Professional, scientific and technical activities	-	-	99 260	148 514	-	-	77	1 723	7 421	7 359
N Administrative and support service activities	-	-	89 550	95 950	-	-	606	582	-	-
O Public administration and defence, compulsory social security	654	660	6	11	-	-	-	-	-	-
P Education	-	-	25	22	-	-	-	-	-	-
Q Human health services and social work activities	-	-	19 508	21 559	-	-	-	-	-	25
R Arts, entertainment and recreation	-	-	76 315	92	23 046	40 080	-	-	-	-
S Other services	-	-	5 794	2 885	-	-	1	5	-	-
Households	**-**	**-**	**1 521 849**	**1 396 591**	**-**	**-**	**130 196**	**129 615**	**-**	**-**
Total	**393 361**	**545 164**	**3 024 686**	**2 690 213**	**439 536**	**541 640**	**219 573**	**326 145**	**18 236**	**27 210**

	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
EUR'000	**Debt securities**		**Loans and advances**		**Debt securities**		**Loan commitments given**		**Financial guarantees given**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Slovak Republic	293 728	446 405	2 202 053	2 019 009	248 124	229 343	142 717	168 332	4 408	10 849
Czech Republic	-	-	319 156	292 002	80 288	87 009	76 807	142 794	1 454	3 886
Cyprus	-	-	274 392	166 599	-	-	37	15 002	-	-
Luxemburg	2 469	2 536	114 727	95 000	12 374	43 162	-	-	-	-
Switzerland	-	-	76 295	62 531	-	-	1	6	-	-
Netherlands	24 671	23 039	30 437	34 944	-	-	-	-	4 954	5 116
France	2 130	2 131	1 845	3 284	52 914	59 571	1	1	-	-
Poland	15 781	15 913	1	11	14 654	56 217	2	2	-	-
Lithuania	10 174	10 238	-	-	13 475	13 294	-	-	-	-
Latvia	2 208	2 234	-	-	17 707	17 629	-	-	-	-
Ireland	11 870	12 003	1	9 999	-	-	-	-	-	-
Great Britain	748	760	5 400	5 948	-	13 721	-	-	-	-
Other countries	29 582	29 905	379	886	-	21 694	8	8	7 420	7 359
Total	**393 361**	**545 164**	**3 024 686**	**2 690 213**	**439 536**	**541 640**	**219 573**	**326 145**	**18 236**	**27 210**

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 (31 December 2019: EUR 300 thousand). Financial assets with exposure equal or higher than EUR 300 thousand (31 December 2019: 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.

The following thresholds apply to retail portfolios:

- deterioration of the internal rating to the worst degree
- forbearance indicator.

The following thresholds apply to corporate portfolios:

- deterioration of the internal rating to the worst degree
- forbearance indicator
- non-compliance with financial covenants.

ii. Qualitative criteria:

The 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 while:
    - the materiality does not apply to real estate portfolios;
    - for corporate portfolios, the materiality is set at EUR 250 or 1% of the amount of the debtor's balance sheet exposure;
- The Borrower has declared bankruptcy or other form of reorganisation;
- The Borrower has asked the 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 considered when modelling expected cash flows.

ii. Portfolio-based exposures

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

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

As at 31 December 2020, the setting of FLI parameters for portfolio assessed exposures is based on macroeconomic predictions of the NBS, which forecast an increased probability of failure of exposures which have been granted a deferral due to COVID-19.

Calculation of ECL

The Group calculates ECL on an individual or portfolio basis. Individual basis is an individual estimate of cash flows at the exposure level. In calculating the ECL on a portfolio basis, exposures are classified from common risk characteristics into a homogenous group.

The aggregation of the exposures follows a business purpose and also considers the risk perspective. Separate portfolios are created for retail secured and unsecured loans, while the Group also creates additional portfolios by the amount of LTV or product type. Corporate exposures are aggregated into instalment loans, overdrafts, guarantees and bonds. Other portfolios mainly represent money-market exposures to financial institutions and government bonds.

i. Individual calculation:

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

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

- **Contractual scenario** - scenario based on the expectation of maturity of all contractual cash flows 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 fulfil 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.

The Group calculates the ECL on an individual or portfolio basis. An individual basis represents an individual estimate.

<u>ECL sensitivity analysis</u>

The Group prepares ECL scenarios when changing parameters for retail loan and corporate loans portfolios. One of the recalculation scenarios is the assessment of ECL in case of deteriorated or improved credit quality of clients, which the Group implements through the adjustment of client ratings. The second scenario is the ECL assessment when at PD and the third scenario represents a change in LGD parameter.

Changes in the credit quality of clients

Scenario of deterioration of the client's rating by 1 rating for retail loans under the following assumptions:

- PD values are allocated according to PD values ratings calculated as at the end of the period;
- for defaulted exposures and exposures where the rating level could not be assessed, the ECL conversion remains the same as calculated as at the end of the period;
- the deterioration of the client's rating is realised by 1 rating level lower, while clients from the worst rating level remain at the same rating level;
- for clients who reach the lowest rating level after the rating level deteriorates, the ECL is calculated in Stage 2, while the EAD is calculated on a straight-line basis.

Scenario of improving the client's rating by 1 level for retail loans under the following assumptions:

- PD values are allocated according to ratings from PD values calculated as at the end of the period;
- for defaulted exposures and exposures where the rating level could not be assessed, the ECL conversion remains the same as calculated as at the end of the period;
- the improvement of the client's rating is realised by 1 rating level higher, while clients from the worst rating level remain at the same rating level;
- Stage remains unchanged

ECL scenarios impact compared to the actual ECL value:

31.12.2020	Value of ECL	Rating downgrade		Rating improvement	
		EUR'000	impact in %	EUR'000	impact in %
Consumer credit	114 498	8 992	7.85%	(5 334)	(4.66%)
Mortgage loans	959	198	20.65%	(118)	(12.30%)
Total	**115 457**	**9 190**	**7.96%**	**(5 452)**	**(4.72%)**

31.12.2019	Value of ECL	Rating downgrade		Rating improvement	
		EUR'000	impact in %	EUR'000	impact in %
Consumer credit	111 791	8 861	7.93%	(6 390)	(5.72%)
Mortgage loans	568	140	24.65%	(53)	(9.33%)
Total	**112 359**	**9 001**	**8.01%**	**(6 443)**	**(5.73%)**

The corporate portfolio is regularly monitored and assessed on a regular basis. The classification into the relevant rating is also performed on an individual basis according to the specific situation of the clients. The corporate portfolio does not show signs of a homogeneous portfolio. Therefore, a sensitivity analysis through change would not provide additional relevant information. In corporate portfolios, the Group assesses the sensitivity to changes in PD, which can be seen below.

PD changes

When changing the PD, the Group tests the ECL sensitivity to PD changes in 10% movements upwards and downwards. This analysis does not change the Stage assignment. The effects of stressing PD parameters are as follows:

PD change	31 December 2020				31 December 2019			
	10% increase		10% decrease		10% increase		10% decrease	
	EUR'000	impact in %	EUR'000	impact in %	EUR'000	impact in %	EUR'000	impact in %
Consumer credit	2 457	2.15%	(2 457)	(2.15%)	2 514	2.25%	(2 514)	(2.25%)
Mortgage loans	43	4.45%	(43)	(4.45%)	18	3.13%	(18)	(3.13%)
Corporate loans	2 572	2.41%	(2 572)	(2.41%)	2 224	2.37%	(2 224)	(2.37%)
Other	38	1.22%	(38)	(1.22%)	51	0.95%	(51)	(0.95%)
Total	**5 110**	**2.27%**	**(5 110)**	**(2.27%)**	**4 805**	**2.27%**	**(4 805)**	**(2.27%)**

A change of the LGD parameter

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

LGD change	31 December 2020		31 December 2019	
	impact in %	EUR'000	impact in %	EUR'000
+5%	3.19%	7 153	3.36%	7 025
-5%	(3.19%)	(7 153)	(3.36%)	(7 025)
+10%	6.32%	14 160	6.67%	13 927
-10%	(6.39%)	(14 305)	(6.73%)	(14 050)

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	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial assets at AC - Debt securities										
Low credit risk	337 960	478 482	-	-	-	-	-	-	337 960	478 482
Moderate credit risk	-	-	-	-	-	-	-	-	-	-
High credit risk	-	-	55 401	66 682	-	-	-	-	55 401	66 682
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**337 960**	**478 482**	**55 401**	**66 682**	**-**	**-**	**-**	**-**	**393 361**	**545 164**
Impairment allowance	(95)	(145)	(7 626)	(7 385)	-	-	-	-	(7 721)	(7 530)
Carrying amount	**337 865**	**478 337**	**47 775**	**59 297**	**-**	**-**	**-**	**-**	**385 640**	**537 634**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial assets at AC - Loans and advances										
Low credit risk	807 841	745 282	56 299	5 824	-	-	-	-	864 140	751 106
Moderate credit risk	1 303 823	1 213 471	140 715	32 364	8 322	-	4	-	1 452 864	1 245 835
High credit risk	192 386	311 127	279 400	123 138	338	-	22 066	14	494 190	434 279
Default	-	-	-	-	172 204	169 126	8 630	37 396	180 834	206 522
Not rated	12 885	15 197	19 223	36 870	550	404	-	-	32 658	52 471
Gross amount	**2 316 935**	**2 285 077**	**495 637**	**198 196**	**181 414**	**169 530**	**30 700**	**37 410**	**3 024 686**	**2 690 213**
Impairment allowance	(23 036)	(26 864)	(41 260)	(22 743)	(152 219)	(140 539)	(10 867)	(17 586)	(227 382)	(207 732)
Carrying amount	**2 293 899**	**2 258 213**	**454 377**	**175 453**	**29 195**	**28 991**	**19 833**	**19 824**	**2 797 304**	**2 482 481**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial assets at FVOCI - Debt securities										
Low credit risk	359 391	425 233	-	-	-	-	-	-	359 391	425 233
Moderate credit risk	77 007	113 387	-	-	-	-	-	-	77 007	113 387
High credit risk	3 138	3 020	-	-	-	-	-	-	3 138	3 020
Default	-	-	-	-	-	-	-	-	-	-
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**439 536**	**541 640**	**-**	**-**	**-**	**-**	**-**	**-**	**439 536**	**541 640**
Impairment allowance in OCI	(477)	(1 218)	-	-	-	-	-	-	(477)	(1 218)

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Loan and other commitments given										
Low credit risk	102 229	130 979	5	4	-	-	-	-	102 234	130 983
Moderate credit risk	98 961	177 477	1	-	-	-	-	-	98 962	177 477
High credit risk	2 133	4 470	974	1 832	-	-	-	-	3 107	6 302
Default	-	-	-	-	44	4	-	-	44	4
Not rated	3 000	3 000	12 226	8 379	-	-	-	-	15 226	11 379
Gross amount	**206 323**	**315 926**	**13 206**	**10 215**	**44**	**4**	**-**	**-**	**219 573**	**326 145**
Provision	**342**	**1 337**	**439**	**695**	**11**	**-**	**-**	**-**	**792**	**2 032**

EUR'000	Stage 1		Stage 2		Stage 3		POCI		Total	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial guarantees given										
Low credit risk	2 121	896	-	-	-	-	-	-	2 121	896
Moderate credit risk	12 973	20 466	-	-	-	-	-	-	12 973	20 466
High credit risk	1 932	3 314	-	-	-	-	-	-	1 932	3 314
Default	-	-	-	-	1 210	2 534	-	-	1 210	2 534
Not rated	-	-	-	-	-	-	-	-	-	-
Gross amount	**17 026**	**24 676**	**-**	**-**	**1 210**	**2 534**	**-**	**-**	**18 236**	**27 210**
Provision	**80**	**231**	**-**	**-**	**609**	**494**	**-**	**-**	**689**	**725**

Received collaterals

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 banks, governments or reputable third parties;
- Securities;
- Receivables;
- Commercial and residential real estate;
- Tangible assets.

Estimates of fair value are based on the value of collateral 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 (so-called recoverable amount):

EUR'000	31.12.2020	31.12.2019
Guarantees received	-	-
Real-estates	712 836	638 964
Securities	230 593	199 093
Bank accounts	6	9
Other	167 794	126 598
Total	**1 111 229**	**964 664**

Collateral in default loans and advances at amortised cost:

EUR'000	31.12.2020	31.12.2019
Gross amount	190 044	206 926
Impairment allowances	(159 890)	(157 521)
Carrying amount	**30 154**	**49 405**
Collateral	**5 663**	**25 001**

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	31.12.2020	31.12.2019
Net value of assets obtained by taking possession of collateral	193	**167**

Recovery of 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.

Impact of COVID-19 pandemic

Retail portfolios

- From the credit risk point of view, the Group distinguishes between the provision of deferred payments to deferred payments for retired clients and for non-retired clients whereas, according to the amount of outstanding exposure as at 31 December 2020, deferred payments to non-retired clients represent 95.5% of provided deferred payments;

- Loans to non-retired clients with deferral of payments during the pandemic are included in Level 2, as the Group is exposed to increased credit risk due to possible loss of income in the future, the Group does not expect loss of income in retired clients;
- The FLI multiplier for retail portfolios was set uniformly at 30%, increasing the original value by 5%, with the exception of the Lepšia Splátka product, which decreased from 50%;
- As a result of inclusion in Level 2 and adjustment of the FLI parameter, there was a one-off increase in provisions by EUR 5 006 thousand

Corporate portfolios

- Corporate clients are monitored and assessed individually on a regular basis during the pandemic
- Categorisation to the relevant Level also takes place on an individual basis according to the specific situation of the clients
- Due to individual assessment, the Bank did not adjust the PD values of individual rating classes and the setting of the LGD parameter
- Impacts on ECL due to the pandemic alone cannot be clearly defined.

The following table shows the gross value and impairment allowances of financial assets with deferred payments as a result of COVID-19 measures.

31.12.2020 EUR'000	**Gross amount**			**Impairment allowances**		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Financial assets at amortised cost	**67 205**	**150 059**	**180**	**(918)**	**(10 143)**	**(136)**
Loans and advances	67 205	150 059	180	(918)	(10 143)	(136)
of which: Non-financial corporations	*59 642*	*8 318*	*82*	*(763)*	*(251)*	*(61)*
of which: Households	*7 485*	*141 718*	*98*	*(154)*	*(9 884)*	*(76)*

Remaining period of moratorium is as follows:

31.12.2020 EUR'000	**Gross amount**	**Residual maturity of moratoria**				
		≤ 3 months	**> 3 months ≤ 6 months**	**> 6 months ≤ 9 months**	**> 9 months ≤ 12 months**	**> 12 months**
Financial assets at amortised cost	**217 444**	**159 835**	**18 050**	**6 580**	**204**	**32 775**
Loans and advances	217 444	159 835	18 050	6 580	204	32 775
of which: Non-financial corporations	*68 042*	*34 062*	*1 543*	*100*	*-*	*32 337*
of which: Households	*149 301*	*125 672*	*16 507*	*6 480*	*204*	*438*

The deferral of repayments under the COVID-19 measures was provided for 13 324 loans, which are active as of 31 December 2020, of which the deferral continues for 8 213 loans. According to our records 180 remaining loans were granted a deferred payment during the reporting period. We record more than 30 days of delay in repayment of instalments for 326 loans and 4 605 loans are due after the end of the deferral of instalments.

36. 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:

	31.12.2020	**31.12.2019**
End of the period	2.15	2.88
Average for the period	1.95	2.65
Maximum for the period	2.15	2.88
Minimum for the period	1.81	2.32

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 2020**			**31 December 2019**		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets						
Cash, cash balances at central banks and other demand deposits	296 241	-	296 241	356 934	-	356 934
Financial assets held for trading	2 648	-	2 648	1 021	-	1 021
Non-trading financial assets mandatorily at fair value through profit or loss	10 264	328 656	338 920	16 778	276 130	292 908
Financial assets at fair value through other comprehensive income	102 694	336 907	439 601	75 506	469 026	544 532
Financial assets at amortised cost	697 946	2 521 671	3 219 617	715 855	2 356 392	3 072 247
Debt securities	*16 737*	*368 903*	*385 640*	*186 923*	*350 711*	*537 634*
Loans and advances	*644 536*	*2 152 768*	*2 797 304*	*476 800*	*2 005 681*	*2 482 481*
Other financial assets	*36 673*	*-*	*36 673*	*52 132*	*-*	*52 132*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2 276	-	2 276	1 965	-	1 965
Investments in subsidiaries, joint ventures and associates	-	1 515	1 515	-	1 073	1 073
Tangible assets	-	62 152	62 152	-	49 073	49 073
Intangible assets	-	59 839	59 839	-	46 538	46 538
Current tax assets	307	-	307	1 837	-	1 837
Deferred tax assets	-	25 526	25 526	-	18 970	18 970
Other assets	17 510	-	17 510	24 158	-	24 158
Total assets	**1 129 886**	**3 336 266**	**4 466 152**	**1 194 054**	**3 217 202**	**4 411 256**
Liabilities						
Financial liabilities held for trading	746	-	746	3 968	-	3 968
Financial liabilities measured at amortised cost	3 503 698	222 979	3 726 677	3 253 644	455 910	3 709 554
Deposits	*3 474 147*	*194 255*	*3 668 402*	*3 224 123*	*435 622*	*3 659 745*
Other financial liabilities	*29 551*	*28 724*	*58 275*	*29 521*	*20 288*	*49 809*
thereof: lease liabilities	*5 995*	*27 595*	*33 590*	5 983	20 070	26 053
Derivatives – Hedge accounting	10 318	-	10 318	9 420	-	9 420
Provisions	28 633	-	28 633	26 019	-	26 019
Current tax liabilities	2 000	-	2 000	872	-	872
Other liabilities	15 048	-	15 048	18 923	-	18 923
Total liabilities	**3 560 443**	**222 979**	**3 783 422**	**3 312 846**	**455 910**	**3 768 756**

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, or their volume grows over time. The maturity of these liabilities is determined in the range of 1-10 years, based on their volatility and the use of statistical models.

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 2020	**-**	**-**	**-**	**-**	**-**	**-**
Financial liabilities measured at amortised cost	3 253 845	257 825	163 645	74 491	3 749 806	3 726 677
Deposits	*3 227 358*	*253 597*	*144 157*	*62 788*	*3 687 900*	*3 668 402*
Other financial liabilities	*26 487*	*4 228*	*19 488*	*11 703*	*61 906*	*58 275*
thereof: lease liabilities	*1 926*	*4 111*	*18 159*	*11 703*	*35 899*	*33 590*
Total	**3 253 845**	**257 825**	**163 645**	**74 491**	**3 749 806**	**3 726 677**
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**

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 2020						
Loan and other commitments given	219 573	-	-	-	219 573	219 573
Financial guarantees given	18 236	-	-	-	18 236	18 236
Total	**237 809**	**-**	**-**	**-**	**237 809**	**237 809**
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**

37. 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% 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 considers 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	31.12.2020	Average	Maximum	Minimum
VaR trading book	12	6	36	-
VaR banking book	2 516	2 127	2 749	868
VaR total	2 515	2 127	2 731	870
Out of which interest rate risk	*1 144*	*904*	*2 362*	*516*
Out of which credit spread risk	*2 386*	*2 087*	*5 273*	*1 046*
Out of which foreign exchange risk	*12*	*6*	*36*	*-*

EUR'000	31.12.2019	Average	Maximum	Minimum
VaR trading book	1	6	85	-
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*	*-*

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 considered, 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:

	2020	2019
End of the period	(46 642)	(37 550)
Average for the period	(41 975)	(29 911)
Maximum for the period	(46 642)	(50 894)
Minimum for the period	(35 626)	(16 647)

The 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 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 consider 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;
- Prefers 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.

38. 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.

39. Insurance risk

Poštová poisťovňa, a.s. (hereinafter the "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 lower 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, readers of these financial statements should be cautious in 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	**<2011**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
at the year-end when the claim occurred		141	140	178	161	186	325	413	598	462	405	
one year later		62	64	103	98	134	352	435	595	407		
two years later		62	61	103	101	131	347	434	569			
three years later		62	61	103	101	130	347	434				
four years later		62	61	103	101	131	346					
five years later		62	61	103	101	131						
six years later		62	61	103	101							
seven years later		62	61	103								
eight years later		62	61									
nine years later		62										
Estimate of cumulative insurance claims (present)		62	61	103	101	131	346	434	569	407	405	**2 619**
Cumulative payments		62	61	103	101	131	346	433	568	353	196	**2 352**
Cumulative provision		**-**	**-**	**-**	**-**	**-**	**1**	**1**	**1**	**54**	**209**	**267**

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

EUR'000	**<2011**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
at the year-end when the claim occurred		73	81	114	110	141	298	385	535	412	368	
one year later		45	50	77	77	120	334	413	556	372		
two years later		45	49	77	79	117	333	413	531			
three years later		45	49	77	80	117	333	413				
four years later		45	48	77	80	117	332					
five years later		45	48	77	80	117						
six years later		45	48	77	80							
seven years later		45	48	77								
eight years later		45	48									
nine years later		45										
Estimate of cumulative insurance claims (present)		45	48	77	80	117	332	413	531	372	368	**2 383**
Cumulative payments		45	48	77	80	117	331	412	530	336	181	**2 158**
Cumulative provision		**-**	**-**	**-**	**-**	**-**	**1**	**1**	**1**	**36**	**187**	**226**

Summary of provisions from life insurance contracts:

	31 December 2020		**31 December 2019**	
	Before reinsurance	**After reinsurance**	**Before reinsurance**	**After reinsurance**
Traditional life insurance for death and endowment	24 573	24 509	20 637	20 632
Current and deferred pensions	299	299	499	499
Investment contracts with discretionary participation features	97	97	154	154
Riders	558	548	549	541
Total	**25 527**	**25 453**	**21 839**	**21 826**

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

	31 December 2020		**31 December 2019**	
	Before reinsurance	**After reinsurance**	**Before reinsurance**	**After reinsurance**
Liability	73	40	320	140
Loss of employment	34	34	34	33
Assets	253	151	270	149
Motor vehicles	-	-	-	-
Health/ accident, other	148	148	218	218
Travel	11	2	47	-
Total	**519**	**375**	**889**	**540**

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	31.12.2020	31.12.2019	Margin
Cancellation rate	in the first year of insurance	28% - 47% (2% - 53%**)	30% - 54% (3% - 60%**)	(10%)
	in the second year of insurance	10% - 27% (4% - 46%**)	14% - 35% (14% - 49%**)	(10%)
	in the next years of insurance	4% - 24% (4% - 53%**)	6% - 30% (5% - 65%**)	(10%)
Costs	fixed (in EUR)	4€ - 22€	4€ - 55€	N/A
	% of gross premium written	13.2% - 17.5%	18.3% - 19.7%	10%
Cost inflation		0.69% - 2.00%	1.70% - 2.42%	10%
Investment yield	for the following year	(0.0056)	(0.0018)	
	for next years	(0.51%) - 3.76%	(0.01%) - 1.52%	
Discount rate	for the following year	(0.0062)	(0.0049)	
	for next years	(0.62%) - 3.8%	(0.36%) - 1.53%	
Coefficient of payment out of pension contracts	in a lump sum	85%	85%	
	annuity	15%	15%	

The Group 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 inadequacy of provision was recognised.

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	-	-	-	-	(2 196)	-	-
Endowment insurance and mixed insurance	492	6	9	507	567	567	60
Pension insurance	186	1	12	199	310	310	112
Insurance for funeral costs	17 312	159	-	17 471	18 749	18 749	1 278
Universal capital life insurance	588	2	-	590	642	642	53
Investment life insurance	1 622	0	-	1 622	1 449	1 449	-
Children's insurance	2 077	1	-	2 078	1 416	1 416	-
Risk insurance	24	37	-	61	(2 604)	-	-
Mortgage	-	-	-	-	(285)	-	-
Total	**22 301**	**207**	**21**	**22 528**	**18 049**	**23 134**	**1 502**

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.

40. 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.

41. 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. 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;

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).

42. 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 and its amendments ("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	31.12.2020	31.12.2019
Tier I Capital	**609 754**	**584 830**
Share capital and share premium	367 043	367 043
Reserve funds and other funds created from profit	60 430	55 555
Selected components of accumulated other comprehensive income	6 547	6 547
Profit or loss of previous years	202 541	172 563
Intangible assets	(49 201)	(44 200)
Additional valuation adjustments	(859)	(914)
Other transitional adjustments to CET1 Capital	23 253	28 236
Tier II Capital	**8 000**	**8 000**
Subordinated debt	8 000	8 000
Regulatory capital total	**617 754**	**592 830**

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

EUR'000	31.12.2020	31.12.2019
Capital required to cover:		
Credit risk	259 299	254 287
Credit value adjustment risk	105	141
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	-
Operational risk	29 527	30 082
Total capital requirements	**288 931**	**284 510**

Capital ratios		
Total capital level as a percentage of total risk weighted assets	17.10%	16.67%
Tier I capital as a percentage of total risk weighted assets	16.88%	16.44%
Common Equity Tier I capital as a percentage of total risk weighted assets	16.88%	16.44%

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	31.12.2020	31.12.2019
Available capital (amounts)		
Common Equity Tier 1 (CET1) capital	609 754	584 830
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements were not applied	586 501	556 594
Tier 1 capital	609 754	584 830
Tier 1 capital as if IFRS 9 transitional arrangements were not applied	586 501	556 594
Total capital	617 754	592 830
Total capital as if IFRS 9 transitional arrangements were not applied	594 501	564 594
Risk-weighted assets (amounts)		
Risk-weighted assets	3 611 631	3 556 383
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	3 585 297	3 524 623
Capital ratio		
Common Equity Tier 1 capital (as a percentage of risk exposure amount)	16.88%	16.44%
Common Equity Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	16.36%	15.79%
Tier 1 capital (as a percentage of risk exposure amount)	16.88%	16.44%
Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	16.36%	15.79%
Total capital (as a percentage of risk exposure amount)	17.10%	16.67%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	16.58%	16.02%

43. 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.