Privatbanka, a.s.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

AND

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

This is a translation of the original auditor's report issued in the Slovak language to the accompanying financial statements translated into the English language.

Privatbanka, a.s.

ANNUAL REPORT
2020

This is an English translation of the original Slovak document.

Contents

INTRODUCTION

The Annual Report of Privatbanka, a.s. (hereinafter the "Bank") has been prepared pursuant to Article 77 of Act No. 566/2001 Coll. on Securities and Investment Services, as amended, pursuant to Article 20 of Act No. 431/2002 Coll. on Accounting, as amended, and pursuant to Article 37 of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended.

1. IDENTIFICATION OF THE REPORTING ENTITY

Business name:	Privatbanka, a.s.
Registered office:	Einsteinova 25, 851 01 Bratislava
Company ID:	31634419
Date of incorporation:	9 August 1995
Founder:	Fond národného majetku Slovenskej republiky, Drieňová 27, 821 01 Bratislava, Slovak Republic, Slovenská poisťovňa, a.s., Strakova 1, 815 74 Bratislava, Slovak Republic, Slovenská sporiteľňa, a.s., Zelená 2, 816 07 Bratislava, Slovak Republic
Share capital:	EUR 25 120 648.06
Contact person:	Ing. Eva Hirešová
Tel.:	02/3226 6111
Fax:	02/3226 6900
E-mail:	privatbanka@privatbanka.sk
Website:	www.privatbanka.sk

2. SCOPE OF BUSINESS

The banking licence was granted to the Bank for the following activities:

1. Receipt of deposits
2. Provision of loans
3. Investing in securities on own account
4. Trading on own account
   a) With money market financial instruments in euros and a foreign currency, including foreign exchange activities
   b) With capital market financial instruments in euros and a foreign currency
   c) With coins made of precious metal, commemorative banknotes and coins, sheets of banknotes, and sets of coins for circulation
5. Administration of a client's receivables on the client's account, including related advisory services
6. Finance lease
7. Provision of guarantees; opening and confirmation of letters of credit
8. Provision of business advisory services
9. Issue of securities, participation in issuing securities, and provision of related services
10. Financial intermediation
11. Custody of valuables
12. Safe hire
13. Provision of banking information
14. Acting as a depository according to a special regulation
15. Processing of banknotes, coins, commemorative banknotes and coins
16. Provision of investment services, investment activities, and ancillary services in accordance with Article 79 (1) and in connection with Article 6 (1) and (2) of Act 566/2001 Coll. on Securities and Investment Services and on an Amendment to Certain Acts, as amended, in the following scope:
    I. Acceptance and forwarding of the client's instructions for one or several financial instruments related to the following financial instruments:

a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities
d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash

II. Execution of a client's instructions on the client's account in relation to the following financial instruments:
a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities
d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash

III. Trading on own account in relation to the following financial instruments:
a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities
d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash

IV. Portfolio management in relation to the following financial instruments:
a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities
d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash

V. Investment consulting in relation to the following financial instruments:
a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities
d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash

VI. Underwriting and placement of financial instruments upon a firm commitment in relation to the following financial instruments:
a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities

VII. Placement of financial instruments without a firm commitment in relation to the following financial instruments:
a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities

VIII. Custody and management of financial instruments on a client's account, including custodian management and related services, in particular the management of cash and financial collaterals in relation to the following financial instruments:
a) Convertible securities
b) Money market instruments
c) Trustee shares or securities issued by foreign collective investment entities

IX. Granting of loans and borrowings to an investor to be able to trade one or several financial instruments if the lender or provider of the borrowing is involved in the transaction

X. Trading of foreign exchange values if they are associated with the provision of investment services

XI. Performance of investment surveys and financial analysis or other forms of general recommendation for trading in financial instruments

XII. Services related to the underwriting of financial instruments

17. Provision of payment services and settlement
18. Issue and administration of electronic money

3. PUBLICATION OF THE ANNUAL REPORT

The Annual Report is published on the Bank's website.

4. CONSOLIDATED FINANCIAL STATEMENTS

(Article 77 (2) (b1) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

Pursuant to Article 22 (12) of Act No. 431/2002 Coll. on Accounting, as amended the Bank did not prepare consolidated financial statements for the year ended 31 December 2020, since the subsidiary Privatfin, s.r.o., with its registered office at Einsteinova 25, 851 01 Bratislava, Company ID: 36 037 869, does not have a significant impact on the Bank's consolidation group. The judgment on the financial position, expenses, revenues and results of operations of the Bank's consolidation group has not been significantly affected by preparing only the Bank's separate financial statements.

5. AUDIT OF FINANCIAL STATEMENTS

(Article 77 (2) (a) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)
(Article 20 (1) of Act No. 431/2002 Coll. on Accounting, as amended)

The Bank's financial statements as at 31 December 2020 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, were audited by Deloitte Audit s.r.o., with its registered office at Digital Park II, Einsteinova 23, 851 01 Bratislava, Licence SKAu No. 014 on 9 April 2021.

6. REPORT ON FINANCIAL POSITION

a) INFORMATION ABOUT THE BANK'S DEVELOPMENT, PRESENT CONDITIONS OF THE BANK AND SIGNIFICANT RISKS AND UNCERTAINTIES THE BANK FACED IN THE 2019 PERIOD

(Article 77 (2) (b1) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)
(Article 20 (1) (a) of Act No. 431/2002 Coll. on Accounting, as amended)

2020 was a year marked by the COVID-19 pandemic for Privatbanka, a.s., the banking sector and the world. The pandemic affected virtually every area of people's lives as well as the activities and results of companies around the world. Privatbanka, a.s. was no exception and the pandemic took its toll on the Bank's financial results.

Despite the difficult situation, the Bank generated a net profit of EUR 6.1 million in 2020. Despite the decrease in profit compared to 2019 by about one third, the Bank generated a return on equity (ROE) of 6.7% in 2020.

Comparison of Financial Indicators

EUR '000	31.12.2020	31.12.2019	Change	Change in %
Total assets	711 857	767 710	(55 853)	(7%)
Cash and balances with central banks	131 629	129 530	2 099	2%
Loans and advances to banks	19 791	16 506	3 285	20%
Loans and advances to customers	318 089	393 024	(74 935)	(19%)
Securities	234 070	221 934	12 136	5%
Due to banks	26 014	70 704	(44 690)	(63%)
Deposits from customers	577 861	587 069	(9 208)	(2%)
Debt securities issued	-	7 943	(7 943)	(100%)
Share capital	25 121	25 121	-	-
Equity	99 643	93 821	5 822	6%
Regulatory capital	92 907	84 114	8 793	10%
Adequacy of regulatory capital	20.05%	15.75%	4.30%	

As in previous years, net interest income and net fee and commission income were the most significant sources of the Bank's profit in the last year. Net interest income amounted to EUR 12.4 million at year-end EUR and decreased only slightly compared to 2019 despite the difficult situation. The COVID-19 pandemic had the greatest impact on net fee and commission income. This totalled EUR 9.4 million at the end of 2020, a y/y decrease by approximately one third. The decrease is due to lower fees in private banking, as clients postponed investments of this kind as a result of the pandemic.

The Bank's total assets at the end of 2020 amounted to EUR 711.9 million. Total assets decreased by EUR 55.9 million y/y, mainly due to a decrease in liabilities to the ECB (EUR -29.7 million) and other banks (EUR -15.0 million).

The loan portfolio decreased to EUR 318.1 million at the end of 2020, but it still made a significant contribution to the Bank's profit and net interest income. Due to the impact of the pandemic on the acquisition of new clients and financing of new projects, the Bank focused on its existing clients and addressed their requirements. The Bank was also able to ensure ensure the repayment of risky loans, which resulted in a year-on-year decrease in the loan portfolio.

Last year, the Bank increased its equity to EUR 99.6 million, a 6% y/y increase. The Bank's regulatory capital will be increased by the 2020 profit, as the entire profit will be retained in the Bank. The regulatory capital constitutes a sufficient capital reserve for the Bank's activities even in the current turbulent period.

As at 31 December 2020, the adequacy of regulatory capital amounted to 20.05% and increased by 4.3 percentage point in 2020.

The Bank has no impact on the environment. The Bank's activities in 2020 had no significant impact on employment in individual regions of the Slovak Republic.

The Bank's activities in 2020 were significantly affected by the COVID-19 pandemic, which was also reflected in the Bank's results, as stated above.

Further details regarding the Bank's results for 2020 are disclosed in the financial statements and notes thereto.

b) INFORMATION ABOUT EVENTS OF PARTICULAR IMPORTANCE THAT OCCURRED AFTER THE END OF THE REPORTING PERIOD AS AT 31 DECEMBER 2020
(Article 20 (1) (b) of Act No. 431/2002 Coll. on Accounting, as amended)

As at the annual report date, there have been no significant events after the end of the reporting period as at 31 December 2020, which would require a material adjustment to the amounts or disclosures in the financial statements as at 31 December 2020.

c) INFORMATION ABOUT THE BANK'S ANTICIPATED ECONOMIC AND FINANCIAL POSITION IN 2021
(Article 77 (2) (d) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)
(Article 20 (1) (c) of Act No. 431/2002 Coll. on Accounting, as amended)

The Bank's activities in 2020 were significantly affected by the COVID-19 pandemic, which was also reflected in the Bank's results, as stated above.

In 2021, private banking and directly-related activities, eg asset management, will continue to be the principal area for the Bank's activities. In addition to private banking, the Bank will continue to focus on corporate banking, particularly the provision of loans to corporate clients.

In private banking, the Bank's goal for 2021 is to continue to increase the volume of clients' assets managed by the Bank. Qualitatively, the aim of the Bank is to provide private clients with highly-individual and flexible services, as regards asset management and other related areas. Issuance of corporate promissory notes and corporate bonds to be arranged by the Bank primarily for shareholder group entities will continue to represent a major part of the product range. In 2021, the Bank will also focus on the sale of third-party products, which should contribute to the growth of the volume of clients' assets managed by the Bank.

As regards corporate banking, the Bank will continue to develop its existing loan portfolio to further improve the Bank's capital and funding options. Due to the probable impact of the pandemic on the acquisition of new clients and the financing of new projects, the Bank will focus on its existing clients and address their requirements. As regards strategy, the Bank continues to apply its proven method of providing loans based on good security and the client's track record.

In 2021, the Bank's goal is to maintain or partially expand the product range for standard clients, to which it provides services through a network of regional investment centres and branches. Funds from the general public represent a substantial share of the funds base of the Bank's balance sheet business. In 2021, the Bank plans to continue the sale of public issues of corporate bonds for retail clients. In 2021, the Bank plans no major changes in its regional network.

In aggregate terms, the Bank plans to report a profit/(loss) after tax of EUR 7.6 million and total assets of EUR 662 million at the end of 2021.

The Bank will have no impact on the environment. In 2021, its activities will not substantially impact employment in individual regions of the Slovak Republic.

The ongoing COVID-19 pandemic creates uncertainties that may affect the Bank's financial results in 2021, both in private banking (general client uncertainty and its impact on investment uncertainty) and in corporate lending (individual client difficulties, absence of new business plans). Even after the end of the pandemic, it can be expected that some of its consequences will remain, such as significantly more frequent use of electronic communication with clients and within the Bank (with regional offices), more widespread home office etc, which will also affect the activities and position of the Bank in the future.

d) INFORMATION ABOUT COSTS OF RESEARCH AND DEVELOPMENT
(Article 20 (1) (d) of Act No. 431/2002 Coll. on Accounting, as amended)

In 2020, the Bank records no costs of research and development.

e) INFORMATION ABOUT THE ACQUISITION OF OWN SHARES, TEMPORARY BONDS, EQUITIES AND SHARES, AS WELL AS TEMPORARY BONDS AND EQUITIES OF THE CONTROLLING ENTITY
(Article 20 (1) (e) of Act No. 431/2002 Coll. on Accounting, as amended)

The Bank does not carry out the said transactions.

f) INFORMATION ABOUT THE PROPOSED 2020 PROFIT DISTRIBUTION
(Article 20 (1) (f) of Act No. 431/2002 Coll. on Accounting, as amended)

EUR '000	2020
Allotment to retained earnings	6 132
Profit for the current reporting period after tax	**6 132**

g) INFORMATION ABOUT THE 2019 PROFIT DISTRIBUTION
(Article 77 (2) (c) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

EUR '000	2019
Allotment to retained earnings	9 117
Profit for the current reporting period after tax	**9 117**

h) I INFORMATION ABOUT DATA REQUIRED UNDER SPECIAL REGULATIONS
(Article 20 (1) (g) of Act No. 431/2002 Coll. on Accounting, as amended)

The Annual Report has been prepared pursuant to Article 77 of Act No. 566/2001 Coll. on Securities and Investment Services, as amended, and pursuant to Article 37 of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended.

i) INFORMATION ABOUT WHETHER THE BANK HAS AN ORGANISATIONAL UNIT ABROAD
(Article 20 (1) (h) of Act No. 431/2002 Coll. on Accounting, as amended)

As at 31 December 2020, in the Czech Republic the Bank provided investment services, and acceptance and forwarding of instructions related to one or more financial instruments through a branch of the foreign bank, which was registered in the Business Register of the Czech Republic on 8 January 2018.

j) SUMMARY OF RECEIVED BANK LOANS AND OTHER LOANS
(Article 77 (2) (b2) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

EUR '000	2020
Loan received from the ECB	26 007
Total due to banks	**26 007**

As at 31 December 2020, loans received from the ECB comprise a loan of EUR 26 410 thousand due in March 2021. This loan is secured by securities at a fair value of EUR 36 416 thousand, which are disclosed in the Statement of Financial Position as "Securities at fair value through other comprehensive income", and securities at an amortised cost of EUR 14 216 thousand, which are disclosed in the Statement of Financial Position as "Securities at amortised cost".

k) SUMMARY OF ISSUED AND OUTSTANDING SECURITIES
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

ISIN	Type	Form	Nature	Number (pcs)	Face value (EUR, CM '000)	Description of Rights
SK1110001619	Share	Registered	Book-entry security	756 874	0,03319 EUR	Section 6l)

l) DESCRIPTION OF RIGHTS ATTACHED TO SHARES ISIN SK1110001619
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

a. The Company's shareholder may be an individual or legal entity. A holder of an interim certificate is also considered a shareholder.
b. The Company shall treat all shareholders equally in equal conditions.
c. The exercise of the shareholder's rights may be restricted or suspended only based on law.
d. The basic rights of a shareholder include the right to participate in the Company's management and to share the Company's profit and the Company's liquidation balance if it is dissolved by liquidation.
e. The shareholder is authorised to participate in and vote at the General Meeting, to request at the General Meeting information and explanations related to the Company's matters and to the matters of entities controlled by the Company, which are associated with the subject of discussion at the General Meeting, and to make proposals at the General Meeting and to be elected in the Company's bodies.
The above rights may be exercised only by a person authorised to exercise these rights as at the decisive date. The decisive date is a day specified in the invitation to the General Meeting or in the General Meeting notice. This day may be a day, on which the General Meeting is held, or a day before the General Meeting; however, no more than five days before the General Meeting is held. If the decisive date is not specified in this way, the day on which the General Meeting is held shall be considered the decisive date.
f. The shareholder is entitled to a share in the Company's profit (dividend), which the General Meeting decided to distribute. This share is determined by the ratio of the face value of the shareholder's shares to the face value of shares of all shareholders. The right to a dividend may be exercised towards the Company only by a person authorised to exercise these rights as at the decisive date. The decisive date to determine a person authorised to exercise the right to a dividend shall be determined by the General Meeting that decided to distribute the Company's profit, and this day may not be determined to be earlier than the fifth day after the day on which the General Meeting is held and later than the 30th day from the day on which the General Meeting is held. If the General Meeting does not specify the decisive date to determine the person authorised to exercise the right to a dividend, the 30th day from the day on which the General Meeting is held shall be considered the decisive date. The dividend is due within 60 days at the latest from the decisive date determined in line with the previous sentence. The Company shall pay the dividend to the shareholders at its own costs and risk. The shareholder is not required to return to the Company a dividend received in good faith.

g. The shareholder is entitled to a share in the liquidation balance if the Company is dissolved by liquidation.
h. The Board of Directors shall provide each shareholder upon request at the General Meeting complete and true information and explanations, which are related to the discussion at the General Meeting, or in writing within 30 days at the latest from the day on which the General Meeting is held, unless the law provides for otherwise.
i. The shareholder has the right to inspect the minutes from the meetings of the Supervisory Board; he/she shall keep such obtained information confidential.
j. The shareholder has the right to inspect at the Company's registered seat the deeds filed in the collection of deeds pursuant to a special act and to request copies of these deeds or request that they be sent to a specified address, at his/her own cost and risk.
k. The General Meeting decides by a majority of votes of the shareholders present, unless generally-binding legal regulations or Articles of Association require another type of majority.
l. A decision of the General Meeting requires a two-thirds majority of votes of the shareholders present if it decides on:
    I. A change of the Company's Article of Association;
    II. An increase in the Company's share capital;
    III. The issue of priority bonds or convertible bonds;
    IV. A conditional increase in the Company's share capital associated with an issue of priority or convertible bonds;
    V. A decrease in the Company's share capital;
    VI. The dissolution of the Company;
    VII. A change of the Company's legal form if it ceases to be a bank;
    VIII. Termination of trading of the Company's shares at a stock exchange;
    IX. The mandate of the Board of Directors to increase the share capital pursuant to Article 210 of the Commercial Code;
    X. The restriction of the shareholder's right to priority underwriting of shares if necessitated by important interests of the Company;
    XI. Other matters, if explicitly provided for in a generally-binding legal regulation.

m) CONVERTIBLE BONDS

(Article 77 (2) (b4) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

The Bank issued no convertible bonds.

n) SPECIFICATION OF THE NATURE OF ACTIVITIES AND GEOGRAPHICAL LOCATION

(Article 77 (2) (f) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)
(Article 37 (6) (a) of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended)

The Bank's core activities include the provision of a wide range of banking and financial services to individuals and legal entities under a banking licence the scope of which is specified in clause 2.

As at 31 December 2020, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and ten regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava, Prievidza and Nové Zámky. As at 31 December 2020, in the Czech Republic the Bank provided investment services, and acceptance and forwarding of instructions related to one or more financial instruments through a branch of the foreign bank, which was registered in the Business Register of the Czech Republic on 8 January 2018. In addition to the activities above, as at 31 December 2020, the Bank also provided other banking activities in the Czech Republic based on the right to the free cross-border activity in line with Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

o) TURNOVER
(Article 77 (2) (g) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended) (Article 37 (6) (b) of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended)

The Bank's turnover was EUR 28 483 thousand in 2020.

p) NUMBER OF FULL-TIME EMPLOYEES AS AT THE REPORTING DATE
(Article 77 (2) (h) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended) (Article 37 (6) (c) of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended)

The number of full-time employees was 179 as at 31 December 2020.

q) PROFIT OR LOSS BEFORE TAX
(Article 77 (2) (i) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended) (Article 37 (6) (d) of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended)

The Bank's profit before tax amounted to EUR 8 187 thousand as at 31 December 2020.

r) INCOME TAX
(Article 77 (2) (j) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended) (Article 37 (6) (e) of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended)

The Bank's income tax expenses amounted to EUR 2 055 thousand as at 31 December 2020.

s) RECEIVED SUBSIDIES FROM PUBLIC FUNDS
(Article 77 (2) (k) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended) (Article 37 (6) (f) of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended)

The Bank received no subsidies from public funds in 2020.

t) RETURN ON ASSETS DETERMINED AS THE RATIO OF NET PROFIT AND TOTAL ASSETS
(Article 77 (2) (e) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended) (Article 37 (6) (g) of Act No. 483/2001 Coll. on Banks and on Amendments to Certain Acts, as amended)

The return on assets (ROA) amounted to 0.82% in 2020.

7. INFORMATION ABOUT THE BANK'S RISK MANAGEMENT OBJECTIVES AND METHODS, INCLUDING THE POLICY FOR HEDGING THE MAIN TYPES OF PLANNED TRANSACTIONS USING HEDGING DERIVATIVES

(Article 20 (5) (a) of Act No. 431/2002 Coll. on Accounting, as amended)

In line with legislative requirements, the Bank's objective as regards risk management is to ensure the adequacy of individual risk exposures in relation to the amount of the Bank's regulatory capital, diversification of risk for all risk factors identified and the maintenance of an acceptable liquidity position. In addition to meeting market regulator requirements, the Bank has developed an internal system of procedures, limits and reports which eliminates potential risks to which the Bank is exposed in its business activities. In terms of risk exposures, the Bank is conservative and it does not engage in speculative transactions.

The Bank has strict rules limiting exposures to the risk of exchange rate fluctuations. The Bank does not open significant capital exposures and does not trade with commodities or their derivatives. The only risk factor that the Bank may hedge using derivatives is the Banking Book's interest rate risk. The interest rate risk exposure of this portfolio, as well as of the Trading Book, is monitored daily using interest rate sensitivity and it is reported regularly to the relevant authorities. The Bank used exclusively interest rate swaps in the past to hedge this risk exposure resulting from the different duration of assets and liabilities. Currently, the Bank has no hedging derivatives.

8. INFORMATION ABOUT PRICE RISKS, CREDIT RISKS, LIQUIDITY RISKS AND CASH FLOW RISKS, TO WHICH THE BANK IS EXPOSED

(Article 20 (5) (b) of Act No. 431/2002 Coll. on Accounting, as amended)

The price change risk in the Bank is monitored and reported for all instruments that can be measured at market values regardless of whether the price change has an impact on the Bank's capital or its profit. The price changes are monitored and reported to the Bank's middle and top management on a daily basis. The Bank has stop/loss limits in place.

The credit risks limits for segment or country concentration and exposure limits are limited, besides legislative requirements, by a system of credit limits for individual counterparties or groups of connected entities. The use of credit limits or credit exposure in the Bank is monitored on a daily basis, including reporting to the Bank's middle and top management.

The Bank has defined qualitative and quantitative liquidity limits combined with the liquidity position development scenario and their use is regularly monitored and reported to middle and top management of the Bank.

APPENDIX

Privatbanka, a.s.

Financial Statements
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

Year Ended 31 December 2020
and Independent Auditor's Report

This is an English language translation of the original Slovak language document.

Contents

Deloitte.

Deloitte Audit s.r.o.
Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

Tel: +421 2 582 49 111
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered in the Business
Register of the District Court Bratislava I
Section Sro, File 4444/B
Company ID: 31 343 414
VAT ID: SK2020325516

Privatbanka, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of Privatbanka, a.s. and the Audit Committee:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Privatbanka, a.s. (the "Bank"), which comprise the statement of financial position as at 31 December 2020, income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank 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 (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud	Summary of the auditor's response to the risks
Provisions for Loans and Advances to Customers	
Refer to Note No. 6 and 7 of the financial statements An assessment of the required provisions for loan receivables requires management to apply a significant level of judgment, especially with regards to identifying a significant increase in credit risk, identifying impaired receivables and quantifying loan impairment. The level of uncertainty and the level of subjectivity of management judgments related to 2020 financial reporting increased significantly due to the COVID-19 pandemic. To assess the amount of provisions for expected losses, the Bank applies statistical models with input parameters obtained from internal and external sources.	We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provisions for the selected significant portfolios. We assessed the correctness of the classification and recognition of loan receivables with deferred payments related to government measures to mitigate the negative consequences of the COVID-19 pandemic in Slovakia. We tested the design and operating effectiveness of key controls the Bank's management has implemented for the loan impairment assessment processes.

This is a translation of the original auditor's report issued in the Slovak language to the accompanying financial statements translated into the English language.

In accordance with the requirements of IFRS 9 "Financial Instruments", the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loan receivables and the relevant debtors and subjective judgments of the Bank. The assessment of classification to stages of impairment includes the combination of relative and absolute factors. Impairment stage II includes loan receivables where a significant increase in credit risk occurred since their initial recognitions determined based on an assessment of the following factors: • The debtor is in arrears with payments for more than 30 days; • Deterioration of the debtor's internal rating by more than 2 rating classes • Non-compliance with contractual financial covenants; and • Other criteria based on an assessment by the credit risk division in line with internal guidelines Where no repayment difficulties have been identified for a particular receivable (impairment stage I), or a significant increase in the credit risk has been identified (impairment stage II), the Bank creates a provision using a statistical model for a homogeneous group of loans. The statistical model used is based on deriving the probability of loan default and the estimated amount of the subsequent loss and assessment of forward looking information. Input data used for the model and the calculation logic and its comprehensiveness depend on Bank management's judgment, including an assessment of the COVID-19 pandemic impact. Impairment stage III includes impaired receivables regarding which any of the following events have occurred: • The debtor is in arrears with payments for more than 90 days; • The debtor was assigned an "E" or "F" internal rating e.g. the debtor will probably fail to pay its liabilities to the Bank in the full amount. When determining the provision amount for impairment stage III, the Bank's management primarily considers the following factors: • Identification of loss events for individual clients of the Bank and probability of recovery scenarios; • Collateral valuation; and • Determination of the amount and timing of expected future cash flows. The provisions for loan losses classified in impairment stage III amount to EUR 13.2 million and provisions for the remaining receivables in stage I and stage II amount to EUR 5.2 million of the total provisions of EUR 18.4 million recognised as at 31 December 2020. Given the significance of these estimates and the significance of financial assets classified as "Loans and advances to customers", we consider the provisions to be the key audit matter.	For receivables in stage I and stage II with regard to which the Bank has not identified any difficulties likely to prevent the full repayment of receivables, we focused on controls related to the client's assessment and loan approval, a regular review of client creditworthiness, timely identification of potential difficulties with debt repayment and correct classification of receivables to corresponding impairment stages. For provisions determined on an individual loan basis classified in impairment stage III, the controls included controls of the client's assessment and loan approval, regular monitoring of loan repayment, monitoring of client creditworthiness and watch-lists, regular review of collateral valuation, and provision calculation and authorisation of provisioning by the Bank's management. We examined the appropriateness of classification to corresponding impairment stages and evaluated the appropriateness of provisioning methods on a sample of loans selected using statistical methods. During our audit, we reviewed loan documentation focussing on the recoverable amount of assets pledged in favour of the Bank, and the financial position and performance of debtors, repayment discipline and overall recoverability of loan receivables. On a sample of individually assessed loans in impairment stage III, we formed an independent view on the levels of provisions recorded while considering internal and external information. This comprised of an assessment of the work performed by the Bank's financial analysts and internal experts on the monitoring of the collateral value and the determination of expected future cash flows from individual loans. We assessed the adequacy of the calculation of the estimated discounted cash flows and where we determined that other assumptions or inputs for the calculation of estimated future cash flows existed, we recalculated the provision amount taking into consideration such assumptions and compared it with the recorded provision to identify any potential errors or management bias. For loans in impairment stages I and II, we assessed in cooperation with our credit risk experts, for selected significant portfolios, the adequacy of estimates made by the Bank's management as regards the probability of loan defaults and the estimated amount of loss given default. On a sample of loans, we verified the correctness and appropriateness of input data used in the calculation models of the Bank. As regards macroeconomic parameters, we assessed the analysis prepared by the Bank's management as to the necessity of manually adjusting macroeconomic and other parameters of the IFRS 9 model to fairly reflect the expected degree of defaults and recoverability of loans in the future.

<table>
<tr><td></td><td>Our procedures also included an assessment of the adequacy of management analysis and adjustments resulting from the impact of the COVID-19 virus crisis on all aspects of the estimation of Expected Credit Losses.

The overall conclusion was supported by an analysis performed at an overall portfolio level to identify anomalies in:

a) Classification of loans to corresponding impairment stages; and
b) The provision amount calculated by the Bank.</td></tr>
<tr><td colspan="2">Recognition of Interest Income and Fee and Commission Income</td></tr>
<tr><td>Refer to Note No. 27 and Note No. 29 of the financial statements

While interest income is accrued over the life of a financial instrument, the moment of the recognition of fee and commission income depends on the nature of fees and commissions as follows:

• Fees and commissions directly attributable to a financial instrument are accrued over the expected life of the given financial instrument using the effective interest method and are presented as interest income;
• Fees and commissions for services provided are recognised at the moment the service is provided and are presented as fee and commission income;
• Fees and commissions for a performed operation are recognised at the moment the operation is completed and are presented as fee and commission income.</td><td>We tested the design and operating effectiveness of the key controls implemented by the Bank's management of the processes for the recognition of interest income and fee and commission income, and focused on controls related to:

• Assessment of policies on interest/fee recognition during the approval of new products;
• The validity and correctness of input data related to loans and advances to customers and customer deposits, including the approval of changes to interest rates and fees and the approval of non-standard interest/fees;
• The Bank's management oversight of the recognition of fee and commission income and interest income; and
• IT controls related to access rights and change management of the relevant IT applications with the assistance of our IT specialists.</td></tr>
<tr><td>The specifics of revenue recognition, the large volume of revenues consisting of a large number of individually immaterial transactions, the necessity of high quality input data and the reliability of IT solutions for their recognition resulted in this matter being identified as a key audit matter.

For the year ended 31 December 2020, interest income amounted to EUR 17.6 million and fee and commission income amounted to EUR 10.5 million; their main source are loans to customers and transactions with securities.</td><td>With respect to the recognition of interest income and fee and commission income, we performed the following procedures:

a) We evaluated the accounting treatment applied by the Bank to determine whether the applied methodology complies with the requirements of the relevant accounting standards.
b) We evaluated the correctness of the accruals of the relevant income over the expected loan life.
c) We performed an analytical calculation and/or detailed testing of significant interest income and fee and commission income.
d) We assessed the correctness of the recognition of interest income for loans classified in impairment stage III.
e) We assessed the completeness and accuracy of data used for the calculation of interest income based on data analysis.</td></tr>
</table>

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

Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management of the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the financial statements stated above does not apply to other information in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We assessed whether the Bank's annual report includes information whose disclosure is required by the Act on Accounting.

Based on procedures performed during the audit of the financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2020 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, based on our understanding of the Bank and its position, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issuance of this auditor's report. There are no findings that should be reported in this regard.

Appointment of the Auditor

We were appointed as the statutory auditor by the Bank's statutory body based on our approval by the Bank's General Meeting held on 15 April 2020. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 13 years.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Bank's Audit Committee, which we issued on 8 April 2021.

Non-Audit Services

We did not provide the Bank with any 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 the statutory audit of public-interest entities and remained independent of the Bank when conducting the audit.

Other than statutory audit services and services disclosed in the annual report or financial statements, we provided no other services to the Bank.

Bratislava, 9 April 2021

Mgr. Renáta Ihringová, FCCA
Responsible Auditor
Licence SKAu No. 881

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

	Note	2020 EUR '000	2019 EUR '000
Assets			
Cash and balances with central banks	4.	131 629	129 530
Loans and advances to banks	5.	19 791	16 506
Loans and advances to customers	6.	318 089	393 024
Securities at fair value through other comprehensive income	8.	152 147	129 945
Securities at amortised cost	9.	81 923	91 989
Investments in subsidiaries	10.	7	7
Tangible and intangible assets	11.	1 385	1 323
Right-of-use assets	12.	2 099	1 446
Tax prepayments	17.	1 218	-
Other assets	13.	3 569	3 940
Total assets		**711 857**	**767 710**
Liabilities and equity			
Due to banks	14.	26 014	70 704
Deposits from customers	15.	577 861	587 069
Debt securities issued	16.	-	7 943
Current tax liability	17.	-	460
Deferred tax liability	18.	290	376
Provisions for liabilities		23	81
Lease liabilities	19.	2 099	1 446
Other liabilities	20.	5 927	5 810
Total liabilities		**612 214**	**673 889**
Equity			
Share capital	21.	25 121	25 121
Capital reserves and funds from profit	21.	5 024	5 024
Accumulated other comprehensive income from securities, including deferred tax	21.	1 116	1 424
Retained earnings		68 382	62 252
Total equity		**99 643**	**93 821**
Total liabilities and equity		**711 857**	**767 710**

The notes on pages 13 to 88 form an integral part of these financial statements.

	Note	2020 EUR '000	2019 EUR '000
Interest income and similar income	27.	17 637	18 656
Interest expense and similar expense	28.	(5 221)	(5 486)
Net interest income		**12 416**	**13 170**
Fee and commission income	29.	10 527	15 556
Fee and commission expense	30.	(1 085)	(922)
Net fee and commission income		**9 442**	**14 634**
Trading profit	31.	226	182
Other income		36	21
Operating income		**22 120**	**28 007**
General operating expenses	32.	(12 470)	(12 496)
Depreciation and amortisation of TA and IA	11.	(485)	(398)
Depreciation of leased assets	12.	(710)	(688)
Operating expense		**(13 665)**	**(13 582)**
Operating profit		**8 455**	**14 425**
(Creation)/release of impairment losses, write-off and assignment of receivables	33.	32	(1 423)
Profit/(loss) from modifications		(165)	(468)
(Creation)/release of provisions for securities		(192)	(22)
Net profit/(loss) from the sale of tangible assets		1	15
(Creation)/release of provisions for liabilities		56	(54)
Profit before taxes		**8 187**	**12 473**
Current tax	23.	(2 059)	(3 361)
Deferred tax	23.	4	5
Profit after tax		**6 132**	**9 117**

The notes on pages 13 to 88 form an integral part of these financial statements.

	Note	2020 EUR '000	2019 EUR '000
Profit after tax from the Income Statement		**6 132**	**9 117**
Items that may be reclassified to profit or loss:			
Remeasurement of securities at fair value through other comprehensive income		(390)	1 739
Deferred tax on securities at fair value through other comprehensive income		82	(365)
Comprehensive income		**5 824**	**10 491**

The notes on pages 13 to 88 form an integral part of these financial statements.

	Share capital	Retained earnings	Capital reserves and funds from profit	Revaluation reserves on securities at fair value through other comprehensive income (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 31 December 2019	**25 121**	**62 252**	**5 024**	**1 424**	**93 821**
FX difference	-	(2)	-	-	**(2)**
2020 comprehensive income	-	6 132	-	(308)	**5 824**
At 31 December 2020	**25 121**	**68 382**	**5 024**	**1 116**	**99 643**

	Share capital	Retained earnings	Capital reserves and funds from profit	Revaluation reserves on securities at fair value through other comprehensive income (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 31 December 2018	**25 121**	**53 137**	**5 024**	**50**	**83 332**
Initial provisions for assets – FX difference	-	(2)	-	-	**(2)**
2019 comprehensive income	-	9 117	-	1 374	**10 491**
At 31 December 2019	**25 121**	**62 252**	**5 024**	**1 424**	**93 821**

The notes on pages 13 to 88 form an integral part of these financial statements.

	Note	2020 EUR '000	2019 EUR '000
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	34.	8 371	13 624
(Increase)/decrease in minimum reserve deposits with the NBS		(1 438)	(15 376)
(Increase)/decrease in loans and advances to customers		76 427	(11 547)
(Increase) in securities at fair value through other comprehensive income upon purchase of securities		(28 239)	(29 924)
Decrease in securities at fair value through other comprehensive income upon purchase and maturity of securities		25 346	27 341
(Increase)/decrease in other assets		207	(1 389)
Increase/(decrease) in amounts due to banks		(45 002)	(991)
Increase/(decrease) in deposits from customers		(9 584)	39 038
Income tax paid		(3 736)	(3 365)
Increase/(decrease) in other liabilities		819	1 417
Net cash flows from operating activities		**23 171**	**18 828**
Cash flows from investing activities			
(Increase)/decrease in securities at amortised cost upon purchase of securities		(2 003)	(15 284)
Decrease in securities at amortised cost upon maturity of securities		11 969	14 298
Purchase of tangible and intangible assets		(547)	(652)
Sale of tangible and intangible assets		1	15
Net cash flows used in investment activities		**9 420**	**(1 623)**
Cash flow from financing activities			
Increase upon issue of long-term debt securities - bonds		-	283
Decrease upon maturity, repurchase and resale of long-term debt securities – bonds		(7 924)	(6 718)
Net increase/(decrease) in lease liabilities		(710)	(688)
Net cash flows used in financing activities		**(8 634)**	**(7 123)**
Net increase in cash and cash equivalents		**23 957**	**10 082**
Cash and cash equivalents at the beginning of the year	35.	**17 914**	**7 832**
Cash and cash equivalents at the end of the year	35.	**41 871**	**17 914**

The Statement of Cash Flows has been prepared using an indirect method.

The notes on pages 13 to 88 form an integral part of these financial statements.

1. GENERAL INFORMATION

Incorporation
Privatbanka, a.s. (hereinafter also the "Bank") was established on 2 August 1995 and incorporated on 9 August 1995. The Bank commenced its activities on 22 May 1996. The Bank's registered office is Einsteinova 25, 851 01 Bratislava. The Bank's identification number is 31 634 419 and its tax identification number is 2020461905.

Principal activities
The principal activities of the Bank, as a holder of a banking license, include the provision of a wide range of banking and financial services to corporate and private customers.

The banking licence was granted to the Bank for the following activities:

1. Receipt of deposits
2. Provision of loans
3. Investment in securities on own account
4. Trading on own account
   a) With money market financial instruments in euros and foreign currency including foreign exchange activities
   b) With capital market financial instruments in euros and foreign currency
   c) With coins made of precious metal, commemorative banknotes and coins, sheets of banknotes, and sets of coins for circulation
5. Administration of customer's receivables on its account including advisory services
6. Finance lease
7. Provision of guarantees; opening and confirmation of letters of credit
8. Provision of business advisory services
9. Issue of securities, participation in issuing securities, and provision of related services
10. Financial intermediation
11. Custody of valuables
12. Safe hire
13. Provision of banking information
14. Acting as a depository according to a special regulation
15. Processing of banknotes, coins, commemorative banknotes and coins
16. Provision of investment services, investment activities, and ancillary services in accordance with Article 79 (1) and in connection with Article 6 (1) and (2) of Act 566/2001 Coll. on Securities and Investment Services and on an amendment to certain acts, as amended, in the following scope:
    I. Acceptance and forwarding of the client's instructions for one or several financial instruments related to the following financial instruments:
       a) Convertible securities
       b) Money market instruments
       c) Trustee shares or securities issued by foreign collective investment entities
       d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
    II. Execution of the client's instructions on its account in relation to the following financial instruments:
       a) Convertible securities
       b) Money market instruments
       c) Trustee shares or securities issued by foreign collective investment entities
       d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash

III. Trading on own account in relation to the following financial instruments:
   a) Convertible securities
   b) Money market instruments
   c) Trustee shares or securities issued by foreign collective investment entities
   d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
IV. Portfolio management in relation to the following financial instruments:
   a) Convertible securities
   b) Money market instruments
   c) Trustee shares or securities issued by foreign collective investment entities
   d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
V. Investment consulting in relation to the following financial instruments:
   a) Convertible securities
   b) Money market instruments
   c) Trustee shares or securities issued by foreign collective investment entities
   d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
VI. Underwriting and placement of financial instruments upon a firm commitment in relation to the following financial instruments:
   a) Convertible securities
   b) Money market instruments
   c) Trustee shares or securities issued by foreign collective investment entities
VII. Placement of financial instruments without a firm commitment in relation to the following financial instruments:
   a) Convertible securities
   b) Money market instruments
   c) Trustee shares or securities issued by foreign collective investment entities
VIII. Keeping in custody and management of financial instruments on the client's account, including custodian management and related services, in particular management of cash and financial collaterals in relation to the following financial instruments:
   a) Convertible securities
   b) Money market instruments
   c) Trustee shares or securities issued by foreign collective investment entities
IX. Granting of loans and borrowings to an investor to be able to trade one or several financial instruments if the lender or provider of the borrowing is involved in the business
X. Trading of foreign exchange values if they are associated with the provision of investment services
XI. Performance of investment surveys and financial analysis or other forms of general recommendations for trading the financial instruments
XII. Services related to the underwriting of these financial instruments

17. Provision of payment and clearing services
18. Issue and administration of electronic money

Shareholders' structure
The shareholders' structure is as follows:

%	2020	2019
Penta Investments Ltd., Limassol	100,00	100,00
Total	**100,00**	**100,00**

The immediate consolidating entity is Penta Investments Limited, with its registered office at 3rd Floor, Osprey House, 5-7 Old Street, St Helier, JE2 3RG, Channel Islands.

The ultimate parent company is Penta Investments Group Limited, with its registered office at 3rd Floor, Osprey House, 5-7 Old Street, St Helier, JE2 3RG, Channel Islands. The ultimate parent company does not prepare consolidated financial statements.

The consolidated financial statements are available at Penta Investments Limited.

Investments in subsidiaries
As at 31 December 2020, the Bank had the following subsidiary:

Name	**Activity**	**Share (%)**
Privatfin, s.r.o.	Factoring, forfaiting, business advisory services, leasing services	100

Privatfin, s.r.o., with its registered office at Einsteinova 25, 851 01 Bratislava, Identification number: 36 037 869, is registered in the Business Register of District Court Bratislava I, Section: Sro, File No. 40865/B. The subsidiary does not perform activities in significant volumes. As at 31 December 2020, the subsidiary reported a loss of EUR 0.4 thousand (2019: a loss of EUR 0.4 thousand).

Geographical network
As at 31 December 2020, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and ten regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava, Prievidza and Nové Zámky. As at 31 December 2020, in the Czech Republic the Bank provided investment services, and acceptance and forwarding of instructions related to one or more financial instruments through a branch of the foreign bank, which was registered in the Business Register of the Czech Republic on 8 January 2018. In addition to the above activities, as at 31 December 2020, the Bank also provided other banking activities in the Czech Republic based on the right to free cross-border activity in line with Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Members of the Board of Directors
The members of the Bank's Board of Directors as at 31 December 2020 are as follows:

1. Mgr. Ing. Ľuboš Ševčík, CSc.	- Chairman	- Appointed on 4 September 2007
2. RNDr. Miron Zelina, CSc.	- Member	- Appointed on 1 September 2012
3. Ing. Vladimír Hrdina	- Member	- Appointed on 6 August 2003

Supervisory Board
The members of the Bank's Supervisory Board as at 31 December 2020 are as follows:

Elected by the General Meeting:

1. Mgr. Jozef Oravkin	- Chairman	- Appointed on 29 April 2016
2. Ing. Marek Hvožďara	- Vice-Chairman	- Appointed on 27 September 2012

Elected by the employees:
3. Ing. Mgr. Milan Čerešňa - Member - Appointed on 24 August 2012

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(2.1) Basis of presentation
The annual separate financial statements of the Bank (hereinafter the "financial statements") for 2020 and comparative data for 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The Bank does not prepare consolidated financial statements, in which Privatfin, s.r.o. (a subsidiary) would be included, because of its immaterial impact on the Bank's financial statements.

Standards and interpretations effective in the current period

The Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the European Union ("EU") and that are relevant to its operations and are effective for reporting periods beginning on 1 January 2018. The following amendments to the existing standards issued by the International Accounting Standards Board and endorsed by the EU are effective for the current reporting period:

Initial application of new and amended IFRS standards effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) are effective for the current reporting period:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions – adopted by the EU on 9 October 2020 (effective for annual periods beginning on or after 1 January 2020, no later than on 1 June 2020),

- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these amendments to the existing standards has not led to any material changes to the Bank's financial statements.

Specific disclosures: In the reporting period in which a lessee first applies Covid-19-Related Rent Concessions, a lessee is required to disclose the information required by paragraph 28 of IAS 8 – except for point (f) [IFRS 16.C20B]. Additionally, if a lessee applies the practical expedient in IFRS 16.46A, the lessee shall disclose [IFRS 16.60A]:

(a) that it has applied the practical expedient to all rent concessions that meet the conditions in IFRS 16.46B or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient; and
(b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in IFRS 16.46A.

New and amended IFRS standards issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by the IASB and adopted by the EU and are not yet effective:

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 – adopted by the EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021).

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – Phase 2 – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),

New and amended IFRS standards issued by the IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at the date of publication of these financial statements (the effective dates stated below are for IFRS as issued by the IASB):

- **IFRS 17 "Insurance Contracts" and Amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2018 – 2020 Cycle)"** resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only relates to an illustrative example, so no effective date is stated.),

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the initial application period.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Bank's estimates, the hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements if applied as at reporting date.

- **IFRS 14 "Regulatory Deferral Accounts"** issued by the IASB on 30 January 2014. This standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.

- **IFRS 17 "Insurance Contracts"** issued by the IASB on 18 May 2017. The new standard requires insurance liabilities to be measured at the current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while it is applied. Amendments to IFRS 17 "Insurance Contracts" issued by the IASB on 25 June 2020 defer the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. Additionally, the amendments introduce simplifications and clarifications of some requirements set forth in the standard and provide additional reliefs when applying IFRS 17 for the first time.

- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business issued by the IASB on 22 October 2018. Amendments were introduced to improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the IASB also provided supplementary guidance.

- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 issued by the IASB on 14 May 2020. The amendments: a) update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; b) add to IFRS 3 a requirement that for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and c) add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 issued by the IASB on 25 June 2020. The amendments change the fixed expiry date for the temporary exemption from applying IFRS 9 "Financial Instruments" stated in IFRS 4 "Insurance Contracts" so that entities will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform issued by the IASB on 26 September 2019. The changes in the Interest Rate Benchmark Reform:
  a) Modify specific hedge accounting requirements so that entities apply these hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of the interest rate benchmark reform;
  b) Are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
  c) Are not intended to provide relief from any other consequences arising from the interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
  d) Require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – Phase 2, issued by the IASB on 27 August 2020. The changes relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7, and accompany the amendments regarding modifications and hedge accounting:
  a) **Modification of financial assets, financial liabilities and lease liabilities** – the IASB has introduced a practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.
  b) **Hedge accounting requirements** – under the amendments, hedge accounting is not discontinued solely due to the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all the qualifying criteria which apply to hedge accounting, including effectiveness requirements.
  c) **Disclosures** – in order to allow users to understand the nature and extent of risks arising from the IBOR reform to which an entity is exposed and how the entity manages these risks, and the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition, the amendments require that an entity discloses the following information:
     – How the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition;
     – Quantitative information on non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform, disaggregated by the significant interest rate benchmark;
     – If the IBOR reform results in changes to an entity's risk management strategy, a description of such changes and how the entity manages such risks.
  d) The IASB also amended IFRS 4 so that insurers that apply the temporary exemption from IFRS 9 must also apply the amendments in their accounting for modifications directly required by the IBOR reform.

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture issued by the IASB on 11 September 2014. The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of the gain or loss recognition depends on whether the assets sold or contributed constitute a business.

- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions issued by the IASB on 28 May 2020. The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material issued by the IASB on 31 October 2018. The amendments clarify the definition of material and how it should be applied by including it in the definition guidance.

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-Current issued by the IASB on 23 January 2020. The amendments provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. Amendments to IAS 1 issued by the IASB on 15 July 2020 defer the effective date by one year to annual periods beginning on or after 1 January 2023.

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure of Accounting Policies issued by the IASB on 12 February 2021. Amendments require entities to disclose their material accounting policies rather than their significant accounting policies and provide guidance and examples to help preparers in deciding which accounting policies to disclose in their financial statements.

- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates issued by the IASB on 12 February 2021. Amendments focus on accounting estimates and provide guidance how to distinguish between accounting policies and accounting estimates.

- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds Before Intended Use issued by the IASB on 14 May 2020. The amendments prohibit deducting from the cost of an item of property, plant and equipment proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts — Cost of Fulfilling a Contract issued by the IASB on 14 May 2020. The amendments specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2018 – 2020 Cycle)"** issued by the IASB on 14 December 2020. These are amendments to various standards resulting from the annual IFRS improvement project (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording. The amendments: (a) clarify that a subsidiary which applies paragraph D16 (a) of IFRS 1 is permitted to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRS (IFRS 1); (b) clarify which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 when assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf (IFRS 9); (c) remove from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve a potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in this example (Illustrative Example 13 accompanying IFRS 16); and (d) remove the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique (IAS 41).

- **Amendments to References to the Conceptual Framework in IFRS Standards** issued by the IASB on 29 March 2018. As the Conceptual Framework was revised, the IASB updated references to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS applies to a particular transaction.

(2.2) Statement of compliance

The purpose of preparing these financial statements in the Slovak Republic is to comply with Act No. 431/2002 Coll. on Accounting, as amended. The Bank prepares its financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS).

Pursuant to Article 22 (12) of Act No. 431/2002 Coll. on Accounting, as amended, the Bank does not prepare consolidated financial statements for the year ended 31 December 2020, since the subsidiary Privatfin, s.r.o. does not have a significant impact on Privatbanka's consolidated group. The judgment on the financial position, expenses, revenues and results of operations of Privatbanka's consolidated group has not been significantly affected by preparing only the Bank's separate financial statements.

On 15 April 2020, the Bank's General Meeting approved the Bank's financial statements prepared in accordance with IFRS as at 31 December 2019.

The financial statements are intended for general use and information, and are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

(2.3) Basis of preparation

All data are stated in euros (EUR, €). The unit of measure are thousands of euros, unless specified otherwise. The data in parentheses represent negative values.

A branch operating in the Czech Republic is included in the financial statements. Assets and liabilities of the branch are translated to EUR using the exchange rate valid as at the reporting date. Income and costs of the branch abroad are translated to EUR using the exchange rate valid as at the transaction date. Exchange rate gains/losses arising from these transactions are recognised directly in equity.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial investments, financial assets, financial liabilities, and derivatives at fair value.

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value. Other financial and non-financial assets and liabilities are measured at amortised cost or historical cost less provisions.

These financial statements were prepared under the assumption that the Bank will continue operating as a going concern for the foreseeable future. The Bank did not identify any COVID-19 impact that would affect the Bank's ability to continue as a going concern.

The Bank has a controlling interest in the subsidiary as stated in Note 10. In these financial statements, the subsidiary is recognised at cost, taking into account losses from impairment.

(2.4) Significant accounting judgements and estimates

The presentation of financial statements in conformity with IFRS requires that the management of the Bank make judgments about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and future changes in the economic conditions, business strategies, regulatory requirements, accounting rules and/or other factors could result in a change in estimates that could have a material impact on the future reported financial position and results of operations. The level of uncertainty and of subjectivity of management judgments as regards 2020 financial reporting increased significantly due to the COVID-19 pandemic, especially for the assessment of credit risk.

Significant areas that require judgment and estimates:

- Provisions for liabilities are based on the management's judgments and represent the best estimate of the expenditures required to settle a liability of an uncertain timing or amount resulting from an obligation.
- For leases designated in IFRS 16, the Bank assesses the term of such contracts, including contracts with an indefinite term and contracts with an option to extend the term of a contract, the determination of interest rates to be applied for the discounting of future cash flows and the determination of depreciation/amortisation rates.
- When determining fair values of financial instruments for which a market price is not available, the Bank follows the procedure described in Note 2.6.7.
- The Bank continuously monitors the loan portfolio and performs an assessment of receivables from loan transactions on a specific or portfolio basis in order to identify client defaults and the related settlement of the client's liabilities to the Bank. Subsequently, the Bank quantifies (on a quarterly basis) the impact of default on recognised financial assets.
  The identification of expected losses requires the use of models and assumptions about future economic conditions and the credit behaviour of clients. Significant judgments are:
  - Determination of criteria for a significant increase of credit risk;
  - Selection of appropriate models and assumptions to measure expected credit losses using probability of default (PD) and loss given default (LGD).
  - Determination of probabilities and scenarios of expected cash flows from defaulted financial assets;
  - Establishing groups of similar financial assets for the purposes of portfolio measurement of expected credit losses.

For more details on the algorithm used to calculate the amount of provisions, refer to Note 42. Financial Instruments – Credit Risk. Given the current economic conditions, the final estimates may differ from the provisions recognised as at 31 December 2020.
The Bank does not expect to realise benefits from tax non-deductible provisions in the future. Therefore, the Bank does not recognise a deferred income tax asset arising from tax non-deductible provisions.

(2.5) Impact of COVID-19

At the beginning of 2020, the Slovak Republic and the rest of the world were impacted by the COVID-19 coronavirus pandemic. The pandemic has had a major impact on the global economy and thus, on the economy of the Slovak Republic, and on activities of corporate entities and the behaviour of individuals. The impact of the coronavirus on individual areas of the Bank and the measures taken by the Bank's management to mitigate its impact are described in the following paragraphs.

Private banking

The society-wide nature of the coronavirus crisis and the negative impact of its consequences also impacted the private banking segment. The negative impacts of the crisis influenced private banking activities in both Slovakia and the Czech Republic. As regards our clients, the coronavirus crisis and subsequent anti-pandemic measures changed their behaviour, which slowed the decision-making process as regards the execution of their investment plans. The increased aversion to risk and economic uncertainty associated with an unexpected or sudden need for future liquidity also changed clients' preferences in terms of the type of financial instruments and their maturity. The coronavirus crisis changed private bankers' system of work and communication with private banking clients. The tradition of personal meetings of the private banker and a client had to be transferred to an electronic environment and private bankers had to ensure that client communication was undertaken solely using a "contactless" mode. Another area where personal contact with clients had to be replaced was the realization of transactions. The long-term strategy of the gradual transfer of business activities to the online space, which the Bank started to introduce already before the coronavirus crisis, allowed the Bank to continue its trading activities and carry out business transactions with clients in a secure mode via Internetbanking and mobile application of Privatbanka a.s. .

Corporate banking

As regards corporate banking, the Bank reassessed its original goals and curtailed its acquisition processes and primarily focused on the existing loan portfolio and its quality, and targeted aid to affected clients.

In the context of the pandemic, the Bank carried out an analysis of the loan portfolio to identify loans with increased risk, if any, and to calculate the possible impact on the Bank's results.

The Bank continuously monitored the development of financial position and individually responded to potential negative issues and searched for the best solutions for clients' requests arising from the current situation.

In 2020, the Bank did not record any loss from client default, ie the Bank did not write off any loan receivables, nor did it sell any receivables with a discount, etc.

The Bank took into consideration the impact of the pandemic on the economy and the expected crisis in portfolio provisions, namely in the portfolio V – Watchlist. In the calculation of portfolio provisions, the Bank uses data from NBS statistics, based on which the probability of default (PD) is determined. PD was increased based on an expert estimate given the expected worse macroeconomic indicators resulting from the pandemic, which has significantly affected many industries (mainly services, tourism, certain retail sectors).

The responsible decision of the Bank and its shareholder not to pay dividends in the previous years, and to use the generated profit to strengthen the Bank's equity is of key importance. This profit creates a sufficient buffer to cover potential losses should the situation worsen, without jeopardising the Bank's liquidity.

The Slovak Republic, like other European countries, has implemented a great number of measures relatively rapidly to support the corporate sector and households. Deferrals of loan repayments were used extensively. Loan guarantees were slower to be taken up and less used. Privatbanka, a.s. did not participate in the government-guaranteed scheme for the provision of concessional loans.

Overview of the Bank's loans subject to the legislative deferral of loan repayments

	Gross Carrying Amount (in EUR '000)							
	Loans with Ended Legislative Deferral				Loans with Continuing Legislative Deferral			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans subject to legislative deferral	2 383	4 802	5 168	12 353	1 078	4 852	2 900	8 830
Households	0	6	0	6	0	1 177	0	1 177
Non-financial corporations	2 383	4 797	5 167	12 347	1 078	3 674	2 900	7 652

Authorisation of the deferral of repayments under Act No. 67/2020 Coll. on Certain Extraordinary Measures in the Financial Area in Connection with the Spread of the Dangerous Contagious Human Illness COVID-19 as amended did not lead to a change in the stage of a loan. In its internal systems, the Bank introduced the designation of loans or clients subject to legislative deferral of repayments for the needs of their further monitoring and reporting.

For loans with ended legislative deferral, the Bank agreed with most of its clients on the postponement of such deferred repayments to the following period. A similar scenario is also expected for loans where the legislative deferral continued at the end of 2020. If a client is unable to repay deferred repayments in full at the termination date of the deferral of repayments, the Bank assesses on an individual basis whether the client:

- show signs of financial difficulties and should be reclassified as restructured;
- meets identification criteria for a significant change in credit risk or default.

Due to the low number of requests for legislative deferral of repayments, the Bank assessed the financial position of each client and its classification within the stages in accordance with the applicable internal rules.

Retail

In the first wave of the pandemic, there was a decrease in the volume of fixed retail funds (term deposits) on the domestic market (acquired by the internal branch network), which was linked to the increased uncertainty and concerns of the clients as to the future economic development. The Bank was able to replace the above decrease in funds from abroad. As regards funds, the situation stabilised during the summer and autumn, and the Bank did not see a significant decrease in the volume of term deposits during the peak of the 2nd wave of the pandemic at the end of the year. Overall, the Bank increased the volume of term deposits by almost 4%, ie a growth by approximately EUR 13 million in terms of value.

The sale of corporate bonds from the Penta Public issues was strongly affected in both the 1st and 2nd wave of the pandemic. Clients faced great uncertainty as to the impact of the pandemic on the country's economy.

In normal times, the reinvestment rate for maturing bonds is approximately 80%, but the rate decreased significantly to 60-70% during the year. To acquire new clients also became significantly more challenging. Despite the above negative aspects, the Bank mobilised its sales staff capacities and sold bonds in the amount of EUR 103 million in the retail segment in the past year, ie by EUR 3 million more than the total maturities of the bonds in the given year.

Treasury

In Q1 2020, stock markets saw one of the greatest corrections in the history. The uncertain market situation and low ECB interest rates have intensified the conservative nature of the banking portfolio of securities.

Repaid securities in the Bank's portfolio were primarily reinvested in the bonds of systemic banks. The Bank will further strive to maintain low interest rate risk and therefore, the average maturity of the overall securities portfolio has been relatively short in the long term. At the end of 2020, the average maturity of the Bank's securities portfolio was 1.79 years. The overall banking portfolio is also highly liquid, almost 70% of the portfolio is comprised of securities, which may be pledged with the ECB.

The percentage of the securities portfolio as at 31 December 2020 was 32.9% of the Bank's total assets, ie a total amount of EUR 234 million. The Bank does not expect the issuers to have difficulties with repayment of the securities held in these portfolios.

Liquidity

In connection with the pandemic, since the beginning of March 2020 the Bank has increased monitoring of the development of individual components of assets and liabilities relevant to compliance with internal and external liquidity indicators due to the increased uncertainty over acquiring funds from clients.

After experiencing the consequences of the pandemic in the Slovak Republic, despite possible expectations of a slowdown and the Bank's full preparedness to deal with this, only a slight decrease in retail term deposits of clients was recorded from March to May. In the following period of 2020, client term deposits slightly increased and at the year-end they reached a level comparable with the pre-pandemic level (February 2020), which was higher than the level at the end of 2019.

At the end of 2020, the balance of clients' current accounts was comparable with the balance at the end of 2019 and, except for one month (March 2020) when they decreased slightly, clients' current accounts were comparable with the balance at the end of 2019, ie they were above or at the same level.

During 2020, the Bank's liquidity was also affected by the fact that the Bank was able to ensure the repayment of risk loans, resulting in a year-on-year decrease in the loan portfolio, and also in the improvement of liquidity indicators.

Despite the adverse situation, the Bank complied with the liquidity prudential indicators stipulated by Slovak and European legislation with a sufficient cushion during the year and at the end of 2020, and as regards some indicators, with a higher cushion than at the end of 2019. The Bank meets all of its liabilities by the maturity date and is continuing activities as a going concern.

Operational risk

In connection with the COVID-19 pandemic and due to the declaration of an extraordinary situation in the Slovak Republic at the beginning of 2020, the Bank established a Core Management Team pursuant to the Bank's internal regulations. The Core Management Team was primarily responsible for implementing measures adopted in the health, personnel and technical areas (health protection, home office, equipment, remote access of employees to banking systems, etc). The Core Management Team continuously assessed and monitored the development of the pandemic and adopted the necessary measures, especially in the stated operational area.

The Core Management Team prepared and approved individual possible scenarios in connection with development of the pandemic, above all in relation to ensuring the continuity of banking activities. The scenarios also covered the possible necessity of quarantine at the Bank's headquarters. The Bank successfully reviewed and tested individual areas of the Bank's business continuity plan and successfully tested the functionality of the backup centre of the Bank.

Since the beginning of the pandemic, the Bank has adopted measures with regard to the safety of employees and the protection of their health at work. The measures were updated during the year depending on the development of the health situation. The IT hardware and software base was also strengthened, especially in the context of the requirement for an emphasis on electronic communication, given a significant increase in the number of employees working from home and the creation of individual teams of employees in order to prevent the spread of the infection.

In 2020, the Bank did not record an increased number of operational events and the amount of operational losses remained at the comparable level with 2019, far below the capital level allocated to cover operational risks.

During the COVID-19 coronavirus pandemic, the Bank did not limit any of its banking activities and is continuing activities as a going concern.

Human resources

One of the first measures taken by the Bank was to prepare a work timetable for the personnel of various departments so that all and not only key activities of the Bank are covered. All employees were provided with technical equipment ensuring fully effective work from home and also with protective equipment for work at the Bank's premises. In addition to the distribution of protective equipment, the Bank also provided vitamins to employees to boost immunity.

As an employer taking care of its employees, the Bank organised voluntary testing for its employees at its premises.

During the previous year, the pandemic also impacted the normal turnover of employees. Employee turnover decreased and individual divisions stabilised in terms of their personnel.

(2.6) Summary of significant accounting policies

(1) IFRS 9 "Financial Instruments"

The International Financial Reporting Standard "Financial Instruments" ("IFRS 9") was applied by Privatbanka, a.s. for the first time as of 1 January 2018. The standard covers three main areas: classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

Classification and Measurement

All financial assets, except for equity securities and derivatives, are classified based on the Bank's business model, and based on contractual cash flow characteristics of individual assets in compliance with the requirements of IFRS 9. Financial assets are classified in the following categories based on their measurement:

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

Impairment

Under IFRS 9, the incurred loss principle was replaced by the expected loss principle in the impairment calculation model. The new model is applied to all loan receivables and financial assets which are not measured at fair value through profit or loss, including off-balance sheet liabilities.

Impairment recognised through a provision for impairment losses is based on expected losses arising from the probability of default of a financial asset in the following 12 months. If there has been a significant increase in the credit risk of the financial asset since its initial recognition, the provision is based on the expected losses over the entire maturity period of the financial asset. The Bank assesses whether there was a significant increase in credit risk based on the criteria defined in internal guidelines.

<u>Loans</u>
Loans are assessed, measured and recognised by the Bank on an individual and portfolio basis. Loans are assessed on an individual basis, unless they are included in a group of loans – portfolio. The Bank has created five portfolios, which group loans with similar credit risk characteristics.

As regards provision calculation, the Bank classifies loans in accordance with IFRS 9 into 3 stages as follows:

Stage 1 – standard loans: upon initial recognition of a loan and the Bank calculates provisions based on expected losses based on the probability of default in the following 12 months.

Stage 2 – risk-bearing loans: in the event of a significant increase in credit risk, the Bank calculates provisions based on expected losses over the full lifecycle of a loan.

Stage 3 – defaulted loans: the Bank calculates provisions based on expected losses over the full lifecycle of a loan.

For assets classified as standard or risk-bearing loans (Stage 1 and Stage 2), interest income is recognised based on the gross carrying amount of assets. For defaulted assets (Stage 3), interest income is recognised based on the net carrying amount of assets.

Loans are only classified in Stage 3 if there is objective evidence that the client will default on its liability to the Bank.

For portfolio-assessed loans, the Bank calculates provisions based on the principle of expected loan losses for the lifecycle of the loan.

Securities
When calculating provisions for securities, the Bank applies the same approach as when calculating provisions for loans assessed individually, as described above.

Modified Financial Assets
Under IFRS 9, modification occurs when the contractual cash flows of a financial asset are renegotiated or otherwise modified (in particular, by adjusting the repayment schedule or extending the maturity of the loan or by changing the interest rate/margin) and such a renegotiation or modification does not result in the derecognition of the financial asset. A modification may occur at any time over the full lifecycle/holding of a financial asset, ie from initial recognition until the repayment or sale of the financial asset. As regards Privatbanka, a.s., the receivables (financial assets) are usually modified upon their maturity.

The Bank differentiates between two types of modification:
- Unforced modification;
- Forced modification (restructuring).

As regards unforced modification of a financial asset, the client has no financial difficulties and through such a modification the Bank does not grant any concession to the client without which the client would be unable to meet its obligation. The Bank applies unforced modification mainly for commercial reasons.

A forced modification is applied where the client has financial difficulties. The Bank grants a concession to the client due to the client's financial difficulties. The concession is a modification to the repayment schedule, or an extension of the loan's maturity, or a decrease in the interest rate. In its internal guidelines, the Bank has defined characteristics that may indicate that the client has financial difficulties.

The Bank calculates the impact of the modification of the contractual cash flows as the difference between the gross value of the financial asset prior to the modification and the present value of the modified cash flows discounted using the original effective interest rate or market interest rate.

If the calculated impact of the modification of the contractual cash flows does not exceed the materiality level set by the Bank, the Bank does not record and recognise the impact of the modification.

The modification of contractual cash flows also included the authorisation of the deferral of repayments pursuant to Act No. 67/2020 Coll., ie the Bank calculated the impact of such modification. The Bank did not consider such a legislative deferral to be restructuring (forced modification).

(2) Foreign currency translation
Transactions denominated in foreign currencies are translated to euros using the rates of exchange of the ECB or other commercial banks available on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing on the reporting date. Exchange rate gains/losses are included in the Income Statement in "Trading profit".

(3) Cash and cash equivalents
The Bank considers cash, current accounts with the National Bank of Slovakia or other financial institutions, term deposits with other financial institutions with residual maturity up to three months, and treasury bills with a residual maturity up to three months, to be cash equivalents. For the purposes of determining cash flows, the minimum reserve deposit with the NBS is not included as cash equivalent due to restrictions on its availability.

(4) Financial instruments – recognition and measurement

(i) Date of initial recognition
Purchases or sales of financial assets that require the delivery of assets within the timeframe generally established by regulation or convention in the marketplace are recognised as at the date of settlement. Derivatives are recognised as at the trade date.

(ii) Initial measurement of financial instruments
The classification of individual financial instruments depends on the Bank's business model and the cash flow characteristics of a particular financial instrument. Each debt financial instrument must undergo an SPPI testing based on the known parameters of such an instrument at initial classification in the Bank's assets. At initial recognition, the financial instruments are measured at fair value, including the transaction costs.

(iii) Financial investments at amortised cost
Financial investments at amortised cost are financial investments that are held as part of the Bank's business model to collect contractual cash flows; the contractual terms of financial investments define the exact values and amounts of instalments that are solely payments of principal and interest on the principal amounts. After initial recognition, the financial investments are then measured at amortised cost using the effective interest rate method, net of the provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. Impairment losses on such investments are recognised under "(Creation)/release of provisions for securities" in the Income Statement.

(iv) Loans and advances to banks and loans and advances to customers
After initial recognition, the loans and advances to banks and the loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. Impairment losses on such investments are recognised under "(Creation)/release of provisions for impairment losses, write-off and assignment of receivables" in the Income Statement.

(v) Financial assets at fair value through profit or loss
Financial instruments at fair value through profit or loss consist of financial derivative instruments and securities at fair value through profit or loss. Securities at fair value through profit or loss comprise financial assets held for trading and assets that did not meet the SPPI test.

Financial instruments at fair value through profit or loss are recognised at fair value. Gains and losses from revaluation are presented in the Income Statement as "Trading profit". Interest earned while holding securities held for trading is reported using the effective interest rate as interest income in the Income Statement as "Interest income and similar income". Dividends earned while holding financial investments are recognised in the Income Statement as "Trading profit" when the right to payment has been established.

Financial derivatives include currency and interest rate swaps, currency and interest rate forwards, FRA and currency options (call and put options) and other financial derivatives for the purposes of trading and interest rate risk and exchange rate risk management. Financial derivatives are measured at fair value. Unrealised gains and losses on financial derivatives are recognised as "Other assets" or "Other liabilities". Realised and unrealised gains and losses on derivatives entered into for trading purposes are included in the Income Statement in "Trading profit".

Derivatives held as hedging instruments for risk management purposes are remeasured to fair value at the end of each reporting period. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair Value Hedge
When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm off-balance sheet irrevocable commitment, changes in the fair value of the derivative are recognised immediately in the Income Statement together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same income statement line as the hedged item).

Hedge accounting is discontinued if the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked. Any adjustment to a hedged item for which the effective interest method is used is amortised to income 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 income, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in the Income Statement in the same period as the hedged cash flows affect the Income Statement under the same income statement line as the hedged item.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

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

The relationship between the hedging instrument and the hedged item, risk management objectives, and the implementation strategy of various hedging transactions are documented at the beginning of the hedge relationship. From the origin of the hedging, the Bank continuously documents whether the hedging instrument is highly effective in offsetting changes in the fair values or cash flows of the hedged item.

Hedging derivatives are defined as derivatives following the Bank's risk management strategy, the hedge relationship is officially documented and the hedging is effective [run-on].

Embedded Derivatives
Derivatives may be embedded in another contractual arrangement (hereinafter the "host contract"). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through income and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are recognised depending on their classification and are presented in the balance sheet together with the host contract.

(vi) Securities at fair value through other comprehensive income
Debt securities at fair value through other comprehensive income are financial investments that are held as part of the Bank's business model to collect contractual cash flows as well as their sale. The contractual terms of financial investments determine the exact values and amounts of instalments that are solely payments of principal and interest on the principal amounts. This category also includes equity instruments not held for trading.

After initial recognition, the securities at fair value through other comprehensive income are measured at fair value. Unrealised gains and losses are recognised directly in equity under "Revaluation reserves on securities at fair value through other comprehensive income including deferred tax". When the financial asset is sold, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in "Trading profit". Where the Bank holds more than one investment in the same financial asset, they are deemed to be disposed of on an average price basis. Interest income on holding financial investments at fair value through other comprehensive income is recognised using the effective interest rate as interest income in the Income Statement under "Interest income and similar income". Dividends earned while holding financial investments are recognised in the Income Statement as "Trading profit", when the right of the payment has been established. Impairment losses on such investments are recognised in the Income Statement under "(Creation)/release of provisions for securities" and are derecognised from equity ("Revaluation reserves on securities at fair value through other comprehensive income including deferred tax)".

(vii) Deposits from customers, due to banks and debt securities issued
Deposits from customers, due to banks, and debt securities issued are financial instruments, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder or other banks.

After initial recognition, deposits from customers, due to banks, and debt securities issued are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the face value and initial costs that are an integral part of the effective interest rate. The corresponding interest expense is recognised in the Income Statement in line “Interest expense and similar expense”.

(5) Derecognition of financial assets and financial liabilities

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

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; or
- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing exposure. Continuing exposure that takes the form of a guarantee over the transferred asset is measured at the lower of a) the original carrying amount of the asset, and b) the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and recognition of a new liability, and the difference in the relevant carrying amounts is recognised in the Income Statement.

(6) Repurchase and reverse repurchase agreements
Transactions where securities are sold under a commitment to repurchase (repos) at a predetermined price or purchased under a commitment to resell (reverse repos) are treated as received loans in “Due to banks” or “Deposits from customers” with the security transfer of securities or as loans granted in “Loans and advances to banks” or “Loans and advances to customers”. The Bank recognises interest income on securities transferred under a repurchase commitment while interest income on securities received under a resale commitment is not accrued.

Income and expenses arising from repurchase and reverse repurchase commitments, being the difference between the selling and purchase prices of the securities, are accrued over the period of the transaction and recorded in the Income Statement as “Interest income and similar income” or “Interest expense and similar expense”.

(7) Determination of fair value
Based on the used input data for the fair value estimates, the calculation of the fair values of the Group's financial assets and liabilities can be classified into one of three levels:

Level 1: Quoted prices from active markets for identical assets or liabilities

Level 2: Inputs other than "Level 1" quoted prices, which can be obtained for assets or liabilities either directly (eg prices) or indirectly (derived from interest rates etc)

Level 3: Input data for assets or liabilities, which cannot be derived from market data

For the determination of a fair value of financial instruments, the following applies:

- The fair value for the financial instruments corresponds to their quoted price in an active market as at the reporting date, without any deduction for transaction costs.
- If the quoted market price is not available or there is no active market for the applicable financial instrument, the fair values of financial instruments are determined using valuation techniques such as theoretical price derived from the proceeds as read from the yield curve of government bonds and the credit margin of issuers' debt securities with comparable credit risk under generally-accepted revaluation rules.
  Where valuation techniques are used to determine fair values, financial instruments are measured and periodically reviewed by qualified personnel independent of the field of their creation. If practically feasible, models use only observable data; however, areas such as credit risk, volatilities and liquidity require expert estimates. Changes in the assumptions related to these factors could affect the reported fair value of financial instruments.
- The fair value of shares and other corporate equity securities whose price is not listed on an active market is stated at cost less impairment, which is considered a reasonable fair value estimate.
- The fair value of government and NBS treasury bills is determined by discounting the face value to present value by the required proceeds by maturity derived from the applicable rates effective on the interbank market.
- For OTC derivatives the fair value is determined by discounting future cash flows to their present value using verifiable market data.

With respect to the definition of the fair value of financial instruments that are not revalued to fair value, the Bank applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market values. More-detailed information on the methods of calculation of fair values of financial instruments not revalued to fair value is provided in Note 44.

To determine the fair values of its financial assets and liabilities, the Bank uses information from the Bloomberg system, where the value is determined by the values of various contributors (financial market entities contributing their prices into the information system) and other important market information.

(8) Impairment of financial assets
The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The value of a financial asset or a group of financial assets is reduced if, and only if, the Bank identified a client default as a result of one or more events that occurred after the initial recognition of the financial asset and that event (or events) has an impact on the estimated future cash flows of the financial asset, or the group of financial assets that can be reliably estimated. Criteria identifying client default as regards the Bank may apply to situations where the borrower (or a group of borrowers) is in financial difficulty, is in default or delinquency as regards interest or principal payments, which are overdue by more than 90 days, if they enter bankruptcy, or other cases where observable data indicate that the client will probably fail to meet its obligations in the full amount towards the Bank.

(i) Loans and advances to banks and loans and advances to customers
For loans and advances to banks and loans and advances to customers, the Bank first assesses individually whether objective evidence of impairment exists for individually assessed items of financial assets.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred as at the reporting date). The carrying amount of the asset is reduced through the use of an account of impairment losses and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases owing to an event occurring after the impairment was recognised, the previously-recognised impairment loss is increased or reduced by adjusting the account of impairment losses. The unrecovered portion of the loans is written off by the Bank as a loss after all means for recovery of the receivable have been applied including the realisation of the receivable's collateral. The Bank does not recognise written-off loans in the off-balance sheet.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that will be generated from the realisation of the collateral less costs of sale.

If the Bank concludes that no objective evidence of impairment exists for an individually assessed financial asset and such an asset shows common indications characteristic for individual portfolios created by the Bank, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment.

For the collective recognition of impairment, financial assets are grouped using the Bank's internal credit classification system that considers similar credit risk characteristics, in particular type of financial asset, type of debtor, security method, and other relevant factors.

The selected types of loans to customers where no default was identified on an individual basis are classified into groups – portfolios with similar risk characteristics. Provisions created for financial asset portfolios are used to cover losses that have not been identified on an individual basis, however, based on objective historical experience, they are embedded in individual portfolios. Portfolio provisions are intended to reflect the risk of loss that has not yet been individually identified but, based on historical experience and the impact of current economic market conditions, included in individual portfolios.

The Bank has five portfolios created for the collective (portfolio) measurement of receivables with common characteristics. The Bank's loan portfolios comprise the portfolio of loans and current account overdrafts provided to the Bank's employees, the portfolio of current account overdrafts provided to private banking customers, the portfolio of loans provided to individuals as housing loans, the portfolio of loans provided to private banking customers as loans secured by the portfolio of the customers' securities managed by the Bank and the portfolio of loans provided to the Bank's customers included in the Bank's watch list (closer monitoring).

The Bank does not have a sufficiently-long time series for the calculation of an historical default rate for the loan portfolios. The Bank developed a model for the calculation of provisions for loan portfolios. The amount of such provisions is defined as a percentage of the total portfolio value and depends on the probability of default and loss given default. The input data for the model comprise regular monthly statements reported by the National Bank of Slovakia on the status of loans in the banking sector for the preceding periods and a loan portfolio report of the bank at the year-end. The incurred but not identified loss at the end of 2020 amounts to:

- 2.19% of the total amount of the loans included in the portfolio of loans and current account overdrafts provided to employees;
- 5.00% of the total amount of the loans included in the portfolio of collateralised current account overdrafts provided to private banking customers;

- 1.67% of the total amount of the loans included in the housing loan portfolio;
- 6.24% of the total amount of the loans included in the portfolio of collateralised loans provided to private banking customers; and
- 4.71% of the total amount of the loans included in the watch list loan portfolio.

The Bank monitors changes in economic conditions of the relevant market and regularly reassesses the amount of portfolio provisions. The Bank also tests the model quality by comparison with the realised losses from the loan portfolio for the previous year.

Additional information on credit risk management is provided in Note 42. Financial Instruments – Credit Risk

(ii) Financial investments at amortised cost
For investments measured at amortised cost, the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts previously disclosed in expenses are credited to the "Loss on impairment of financial investments".

(iii) Financial investments at fair value through other comprehensive income
For financial investments at fair value through other comprehensive income, the Bank assesses as at the reporting date whether there is objective evidence of impairment of the investment or a group of investments.

For equity investments classified as measured at fair value through other comprehensive income, objective evidence would include a significant or long-term decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement – is removed from equity and recognised in the Income Statement. Provisions for equity investments are not reversed through the Income Statement. Increases in their fair value after impairment are recognised directly in equity.

As regards debt instruments classified as measured at fair value through other comprehensive income, impairment is assessed based on the same criteria as for financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate and is recorded as part of "Interest income and similar income". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the provision for the financial assets is reversed through the Income Statement.

(iv) Renegotiated loans
The Bank prefers to restructure loans rather than perfect the collateral if such procedure improves or strengthens its position as a creditor. Restructuring may include the extension of repayment dates and the agreement of new credit terms and conditions. Once the terms have been renegotiated, the loan is no longer considered a past-due asset. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective assessment for impairment expressed as a provision.

(9) Accrued interest income and expense
Accrued interest income and expense related to financial assets and liabilities are presented as at the reporting date together with the corresponding assets and liabilities in the statement of financial position.

(10) Tangible and intangible assets
Tangible and intangible assets are recognised at historical cost less accumulated depreciation and provisions for impairment losses. Tangible and intangible assets are depreciated/amortised as follows:

Buildings and structures	20 to 40 years, linear
Software	Up to 5 years, linear
Other assets	4 to 12 years, linear

Land and assets under construction are not depreciated.

Gains and losses on the sale of tangible and intangible assets are determined by reference to their net book value and are recognised in the Income Statement in the year of disposal. Low-value tangible and intangible assets and technical improvements costing less than EUR 1 700 in the case of tangible assets, and EUR 2 400 in the case of intangible assets, are recognised in the Income Statement when the expenditure is incurred.

Costs associated with the maintenance of existing software are expensed through "General operative expenses" as incurred, while the costs of technical improvements are capitalised and increase the cost of software.

(11) Impairment of tangible and intangible assets
At each reporting date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any).

The recoverable amount is the higher of fair value less costs of sale and present value of future cash flows expected to be derived from the asset. If any of the above amounts exceeds the carrying amount, there is no need to estimate the other amount. If the estimated recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset shall be reduced to equal the recoverable amount. The impairment loss shall be recognised directly in the Income Statement.

(12) IFRS 16 Leases
The International Financial Reporting Standard "Leases" (IFRS 16) was applied by the Bank for the first time as of 1 January 2019.

This standard removes the dual model of accounting by the lessee. Instead, it requires that companies recognise most leases in the balance sheet under a single model eliminating the distinction between an operating lease and a finance lease. In accordance with IFRS 16, a contract is, or contains, a lease if the contract transfers the right to control the use of an identified asset over a certain period of time in exchange for consideration. For such contracts, the new model requires the lessee to recognise a right-of-use asset and a lease liability. The right of use is amortised over the term of the lease contract and the liability bears interest.

The new standard introduces several exemptions for a lessee, which include:
- Leases with a lease term of 12 months or less which do not include a purchase option;
- Leases for which the underlying asset is of low value.

The Bank applied the above exemptions.

After the application of IFRS 16, the Bank measures lease liabilities at the present value of receivables from lease payments. Lease payments are discounted using the interest rate implicit in the lease. The Bank uses a zero implicit interest rate.

Right-of-use assets are initially measured at cost, which consists of the following:
- Initial estimate of lease liabilities;
- Any lease payments made at or before the commencement date of the lease, less any receivable from lease incentives;
- Any initial costs directly incurred by the lessee due to entering into a lease contract;
- An estimate of costs which will be incurred by the lessee due to an obligation to dismantle and remove the underlying asset or to carry out refurbishment/restoration.

(13) Guarantees issued
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees, and accepted notes. Financial guarantees are initially recognised at fair value, in "Other liabilities". Upon initial recognition, the Bank's liability under each guarantee granted is measured at the higher of the amortised cost and the best estimate of expenditures required to settle any financial obligation arising as a result of the guarantee, and is recognised in "Other liabilities".

(14) Provisions for liabilities
A provision is a liability of uncertain timing or amount. A reserve is recognised when the Bank has an obligation (legal or constructive) as a result of past events and it is probable that the satisfaction of the obligation will require a cash outflow and, at the same time, the amount of the obligation can be reliably estimated.

The amount of provisions for liability is recognised based on the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision for liability is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision for liability are expected to be recovered from a third party, the receivable is recognised as an asset if it is certain that a reimbursement will be received and the amount of the receivable can be measured reliably.

(15) Recognition of income and expenses

(i) Interest expense and interest income
Interest expense and interest income are recorded in the Income Statement on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability, or a group of financial assets or financial liabilities, by allocating interest income and income expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument so that they correspond to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of loans and loan commitments that compensate activities performed to maintain the instrument are recorded on an accrual basis and recognised as effective interest rate adjustments.

Interest expenses and interest income also include transaction fees at the origin of the financial instrument.

For assets classified as standard or risk-bearing (Stage 1 and Stage 2), interest income is recognised based on the gross carrying amount of assets. For defaulted assets (Stage 3), interest income is recognised based on the net carrying amount of assets.

(ii) Fee and commission income and expenses
Fees earned for the administration of loans and other received and paid fees are recorded in the Income Statement when the service is provided or received. The Bank receives fees primarily in connection with the issue of securities for related parties.

(iii) Income tax
Income tax includes current tax and deferred tax.

Current income tax represents the expected tax liability resulting from taxable income for the year calculated at the tax rate as at the reporting date with any current income tax adjustments from previous years.

Deferred income tax is calculated using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is calculated at the tax rates that are expected to apply to the period when the time differences are reversed.

Deferred income tax assets are only recognised to the extent that it is probable that taxable profits will be available against which non-utilised tax losses and credits can be applied. Deferred income tax assets are decreased to the extent that it is not probable that the related tax benefits can be realised.

Deferred income tax is charged or credited to the Income Statement, except when such deferred income tax relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity. Deferred income tax assets and liabilities are offset when there is a legally-enforceable right to offset current income tax assets against current income tax liabilities, and when they relate to income taxes levied by the same tax authority and the Bank intends to settle its current income tax assets and liabilities on a net basis.

(16) Subsidiaries and other equity investments

The financial statements present the accounts and results of the Bank only.

Subsidiaries
An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50% of such subsidiary's share capital or in which the Bank can exercise more than 50% of the voting rights, or where the Bank can appoint or dismiss the majority of the Board of Directors or Supervisory Board members, or have other means of governing the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are valued at cost less provisions for impairment.

Other equity participations
Other equity participations represent investments with less than a 20% share on the share capital and voting rights. Such investments are measured using the fair value model applicable on the available-for-sale securities. Investments for which no quoted market prices on an active market are available or investments the fair value of which cannot be determined reliably are recognised at cost.

(17) Transactions with securities for customers
Securities received by the Bank into custody and for deposit are recognised at face value in the off-balance sheet. The securities taken over by the Bank for management are recognised at fair value in the off-balance sheet. The Bank's amounts due to customers are recognised as "Deposits from customers" in the balance sheet owing to cash received for purchase of securities, cash to be returned to clients etc.

(18) Regulatory requirements
The Bank is subject to the regulatory requirements of the central bank. These regulations include those pertaining to capital adequacy, classification of loans and off-balance sheet commitments, asset concentration, credit risks associated with the Bank's clients, liquidity, interest rates, and foreign currency position.

3. RECOGNITION OF SELECTED ASSETS BY GEOGRAPHICAL AREA

Classification by geographical area as at 31 December 2020:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Securities at fair value through other comprehensive income	Securities measured at amortised cost	Investments in subsidiaries
Cyprus	-	-	6 201	-	-	-
Czech Republic	144	12 193	70 325	7 724	-	-
France	-	-	-	10 576	-	
Netherlands	-	-	-	-	1 502	-
Ireland	-	-	-	2 527	-	-
Latvia	-	-	-	-	10 135	-
Hungary	-	-	46	-	10 133	-
Poland	-	837	44 667	8 083	8 236	-
Austria	-	4 428	165	15 075	2 501	-
Romania	-	12	10 586	-	-	-
Slovak Republic	131 280	2 321	204 539	42 312	45 573	7
Slovenia	-	-	-	8 267	2 886	-
United States of America	101	-	-	40 927	-	-
Switzerland	50	-	-	-	-	-
Sweden	-	-	-	5 245	-	-
Italy	-	-	-	9 687	1 009	-
United Kingdom	54	-	-	2 038	-	-
Total, gross	131 629	19 791	336 529	152 461	81 975	7
Provisions (Note 7)	-	-	(18 440)	(314)	(52)	-
Total, net	131 629	19 791	318 089	152 147	81 923	7

Classification by geographical area as at 31 December 2019:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Securities at fair value through other comprehensive income	Securities measured at amortised cost	Investments in subsidiaries
Cyprus	-	-	8 111	-	-	-
Czech Republic	119	11 571	82 418	16 241	-	-
Netherlands	-	-	-	-	1 504	-
Ireland	-	-	-	5 681	-	-
Latvia	-	-	-	-	10 180	-
Hungary	-	-	65	-	10 112	-
Poland	-	502	61 782	13 388	8 176	-
Austria	-	4 085	209	10 145	2 497	-
Romania	-	13	-	-	-	-
Slovak Republic	129 219	335	258 291	27 130	50 405	7
Slovenia	-	-	-	8 509	2 981	-
United States of America	98	-	-	33 268	-	-
Switzerland	58	-	-	-	-	-
Sweden	-	-	-	5 677	-	-
Italy	-	-	-	10 060	6 161	-
United Kingdom	36	-	-	-	-	-
Total, gross	129 530	16 506	410 876	130 099	92 016	7
Provisions (Note 7)	-	-	(17 852)	(154)	(27)	-
Total, net	129 530	16 506	393 024	129 945	91 989	7

4. CASH AND BALANCES WITH CENTRAL BANKS

EUR '000	2020	2019
Cash on hand	2 074	1 408
Minimum reserve deposits at NBS	129 555	128 122
Total cash and balances with central banks	**131 629**	**129 530**

Receivables from central banks are not secured by any collateral.

The minimum reserve deposits are recognised as a deposit under the regulations of the National Bank of Slovakia. The amount of the reserves depends on the level of deposits accepted by the Bank. The Bank's ability to withdraw the reserve is restricted by statutory legislation; therefore, it is not included in "Cash and balances with central banks" for the purposes of cash flow statement preparation (see Note 35).

5. LOANS AND ADVANCES TO BANKS

EUR '000	2020	2019
Current bank accounts	16 602	15 284
Term deposits with banks	1 999	-
Other amounts due from banks	1 190	1 222
Total loans and advances to banks	**19 791**	**16 506**

Loans and advances to banks have not been secured by any collateral.

6. LOANS AND ADVANCES TO CUSTOMERS

(a) Breakdown of loans and advances to customers per type

EUR '000	2020	2019
Loans and borrowings to		
corporate entities	**322 532**	**385 837**
Stage 1	201 010	257 556
Stage 2	81 375	109 085
Stage 3	40 147	19 196
individuals	**13 997**	**25 039**
Stage 1	772	9 976
Stage 2	11 569	13 311
Stage 3	1 656	1 752
Total loans and advances to customers, gross	**336 529**	**410 876**
Provisions for loans and advances to customers (Note 7)	(18 440)	(17 852)
Total loans and advances to customers, net	**318 089**	**393 024**

The increase in provisions for loans and advances to customers was primarily due to:

- A higher coverage of potential future losses as a result of the expected crisis caused by the COVID-19 pandemic;
- An increase in the volume of defaulted clients' loans mainly caused by reclassification of 3 loan clients and mainly related to financial difficulties of their parent companies rather than the risk to the recovery of the projects financed by the Bank;

- Reassessment of the scenarios of estimated future cash flows from loans of defaulted customers (Stage 3).

As at 31 December 2020, the 15 largest customers accounted for 48.52% of the gross loan portfolio, which amounted to EUR 163 272 thousand (2019: 47.29%, EUR 194 289 thousand).

Further details on credit risk are described in Note 42.

(b) Breakdown of loans and advances to customers per sector

The table below details the breakdown of loans and advances to customers per sector as at 31 December 2020.

EUR '000	Stage 1	Stage 2	Stage 3	**Total**
Residents				
Financial institutions	9 747	-	1 897	**11 644**
Non-financial institutions	110 283	39 447	29 475	**179 205**
Public administration	-	713	-	**713**
Non-profit organisations	100	145	-	**245**
Self-employed	-	34	-	**34**
Individuals	-	11 088	1 610	**12 698**
Non-residents				
Financial institutions	45 149	-	-	**45 149**
Non-financial institutions	35 731	41 070	8 775	**85 576**
Individuals	772	447	46	**1 265**
Total loans and advances to customers, gross	**201 782**	**92 944**	**41 803**	**336 529**
Provisions for loans and advances to customers (Note 7)	(712)	(4 574)	(13 154)	**(18 440)**
Total loans and advances to customers, net	**201 070**	**88 370**	**28 649**	**318 089**

The table below details the breakdown of loans and advances to customers per sector as at 31 December 2019.

EUR '000	Stage 1	Stage 2	Stage 3	**Total**
Residents				
Financial institutions	19 500	-	-	**19 500**
Non-financial institutions	161 704	34 938	18 042	**214 684**
Public administration	-	979	-	**979**
Non-profit organisations	100	145	-	**245**
Self-employed	-	50	-	**50**
Individuals	8 486	12 595	1 752	**22 833**
Non-residents				
Financial institutions	50 670	-	-	**50 670**
Non-financial institutions	25 582	73 023	1 154	**99 759**
Individuals	1 490	666	-	**2 156**
Total loans and advances to customers, gross	**267 532**	**122 396**	**20 948**	**410 876**
Provisions for loans and advances to customers (Note 7)	(550)	(6 181)	(11 121)	**(17 852)**
Total loans and advances to customers, net	**266 982**	**116 215**	**9 827**	**393 024**

The increase in provisions for receivables from defaulted customers (Stage 3) was due to an increase in the total amount of receivables classified as Stage 3 and to the reassessment of expected future cash flow scenarios for such loans.

(c) Breakdown of loans and advances to customers per purpose

The table below details the breakdown of loans and advances to customers per purpose as at 31 December 2020.

EUR '000	Stage 1	Stage 2	Stage 3	**Total**	Share (%)
Short-term loans	**408**	**869**	**5 001**	**6 278**	
Operating	53	294	3 501	**3 848**	1,14
Investment	-	460	-	**460**	0,14
Project	355	115	1 500	**1 970**	0,59
Long-term loans	**201 374**	**92 075**	**36 802**	**330 251**	
Operating	20 125	11 174	7 193	**38 492**	11,44
Investment	156 842	60 594	11 103	**228 539**	67,91
Project	24 407	20 307	18 506	**63 220**	18,78
Total loans and advances to customers, gross	**201 782**	**92 944**	**41 803**	**336 529**	**100,00**
Provisions for loans and advances to customers (Note 7)	(712)	(4 574)	(13 154)	**(18 440)**	
Total loans and advances to customers, net	**201 070**	**88 370**	**28 649**	**318 089**	

The table below details the breakdown of loans and advances to customers per purpose as at 31 December 2019.

EUR '000	Stage 1	Stage 2	Stage 3	**Total**	Share (%)
Short-term loans	**63 140**	**1 788**	**3 236**	**68 164**	
Operating	28 556	1 210	3 236	**33 002**	8,03
Investment	29 594	309	-	**29 903**	7,28
Project	4 990	269	-	**5 259**	1,28
Long-term loans	**204 392**	**120 608**	**17 712**	**342 712**	
Operating	900	8 001	6 516	**15 417**	3,75
Investment	171 374	79 045	7 924	**258 343**	62,88
Project	32 118	33 562	3 272	**68 952**	16,78
Total loans and advances to customers, gross	**267 532**	**122 396**	**20 948**	**410 876**	**100,00**
Provisions for loans and advances to customers (Note 7)	(550)	(6 181)	(11 121)	**(17 852)**	
Total loans and advances to customers, net	**266 982**	**116 215**	**9 827**	**393 024**	

The increase in provisions for receivables from defaulted customers (Stage 3) was due to an increase in the total amount of receivables classified as Stage 3 and to the reassessment of expected future cash flow scenarios for such loans.

(d) Risk categorisation of loans to customers

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2020. The estimate of the collateral's value is a recoverable portion.

EUR '000		Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions		**92 475**	**4 568**	**4,94%**	**73 152**	**84,04%**
Individuals		11 569	666	5,76%	2 663	28,78%
of which:	Stage 1	-	-	-	-	-
	Stage 2	11 569	666	5,76%	2 663	28,78%
	Stage 3	-	-	-	-	-
Corporate entities		80 906	3 902	4,82%	70 489	91,95%
of which:	Stage 1	-	-	-	-	-
	Stage 2	80 906	3 902	4,82%	70 489	91,95%
	Stage 3	-	-	-	-	-
Specific provisions		**244 054**	**13 872**	**5,68%**	**113 450**	**52,17%**
Individuals		2 428	1 586	65,32%	612	90,53%
of which:	Stage 1	772	1	0,13%	581	75,39%
	Stage 2	-	-	-	-	-
	Stage 3	1 656	1 585	95,71%	31	97,58%
Corporate entities		241 626	12 286	5,08%	112 838	51,78%
of which:	Stage 1	201 010	711	0,35%	84 223	42,25%
	Stage 2	469	6	1,28%	226	49,47%
	Stage 3	40 147	11 569	28,82%	28 389	99,53%
Total		**336 529**	**18 440**	**5,48%**	**186 602**	**60,93%**

In 2020, interest income on impaired loans to customers (Stage 3) amounted to EUR 895 thousand (2019: EUR 793 thousand).

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2019. The estimate of the collateral's value is a recoverable portion.

EUR '000		Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions		**119 762**	**6 178**	**5,16%**	**100 930**	**89,43%**
Individuals		13 311	604	4,54%	4 866	41,09%
of which:	Stage 1	-	-	-	-	-
	Stage 2	13 311	604	4,54%	4 866	41,09%
	Stage 3	-	-	-	-	-
Corporate entities		106 451	5 574	5,24%	96 064	95,48%
of which:	Stage 1	-	-	-	-	-
	Stage 2	106 451	5 574	5,24%	96 064	95,48%
	Stage 3	-	-	-	-	-
Specific provisions		**291 114**	**11 674**	**4,01%**	**146 103**	**54,20%**
Individuals		11 728	1 716	14,63%	9 364	94,47%
of which:	Stage 1	9 976	1	0,01%	9 332	93,55%
	Stage 2	-	-	-	-	-
	Stage 3	1 752	1 715	97,89%	32	99,71%
Corporate entities		279 386	9 958	3,56%	136 739	52,51%
of which:	Stage 1	257 556	549	0,21%	126 155	49,19%
	Stage 2	2 634	3	-	1 144	43,55%
	Stage 3	19 196	9 406	49,00%	9 440	98,18%
Total		**410 876**	**17 852**	**4,34%**	**247 033**	**64,47%**

(e) Breakdown of loans and advances to customers per movements in gross carrying amounts

The table below details the breakdown of loans and advances to customers per movements in gross carrying amounts related to movements in provisions during 2020.

EUR '000	Stage 1	Stage 2	Stage 3	**Total**
Gross amount of loans and advances as at 1 Jan 2020	**267 532**	**122 396**	**20 948**	**410 876**
New loans and advances	19 537	-	-	**19 537**
Transfer to Stage 1	296	(296)	-	-
Transfer to Stage 2	(3 271)	3 663	(392)	-
Transfer to Stage 3	(15 892)	(10 916)	26 808	-
Repaid loans and advances	(48 091)	(12 733)	(2 488)	**(63 312)**
Write-offs	-	-	-	-
Other changes	(18 329)	(9 170)	(3 073)	**(30 572)**
Gross amount of loans and advances as at 31 Dec 2020	**201 782**	**92 944**	**41 803**	**336 529**
Provisions for loans and advances to customers (Note 7)	(712)	(4 574)	(13 154)	**(18 440)**
Net amount of loans and advances as at 31 Dec 2020	**201 070**	**88 370**	**28 649**	**318 089**

Other changes mainly comprise the drawing of loans provided before 2020 and the repayment of loans in 2020 that were not repaid in full in 2020.

The table below details the breakdown of loans and advances to customers per movements in gross carrying amounts related to movements in provisions during 2019.

EUR '000	Stage 1	Stage 2	Stage 3	**Total**
Gross amount of loans and advances as at 1 Jan 2019	**248 547**	**131 279**	**17 647**	**397 473**
New loans and advances	143 673	-	-	**143 673**
Transfer to Stage 1	19 592	(19 592)	-	-
Transfer to Stage 2	(62 627)	62 627	-	-
Transfer to Stage 3	(807)	(6 276)	7 083	-
Repaid loans and advances	(91 166)	(52 703)	(506)	**(144 375)**
Write-off and assignment	-	-	(9)	**(9)**
Other changes	10 320	7 061	(3 267)	**14 114**
Gross amount of loans and advances as at 31 Dec 2019	**267 532**	**122 396**	**20 948**	**410 876**
Provisions for loans and advances to customers (Note 7)	(550)	(6 181)	(11 121)	**(17 852)**
Net amount of loans and advances as at 31 Dec 2019	**266 982**	**116 215**	**9 827**	**393 024**

Other changes mainly comprise the drawing of loans provided before 2019 and the repayment of loans in 2019 that were not repaid in full in 2019.

7. PROVISIONS FOR IMPAIRMENT LOSSES

EUR '000	1.1.2020	(Creation)	Release	Use for assigned/ written-off receivables	Foreign exchange gain/loss	31.12.2020
Loans and advances to customers (Note 6)	(17 852)	(10 525)	9 939	-	(2)	(18 440)
Securities at fair value through other comprehensive income (Note 8)	(154)	(187)	20	-	7	(314)
Securities measured at amortised cost (Note 9)	(27)	(34)	9	-	-	(52)
Other assets (Note 14)	(24)	(166)	2	-	-	(188)
Total provisions	**(18 057)**	**(10 912)**	**9 970**	**-**	**5**	**(18 994)**

EUR '000	1.1.2019	(Creation)	Release	Use for assigned/ written-off receivables	Foreign exchange gain/loss	31.12.2019
Loans and advances to customers (Note 6)	(15 559)	(16 371)	14 080	9	(11)	(17 852)
Securities at fair value through other comprehensive income (Note 8)	(132)	(83)	62	-	(1)	(154)
Securities measured at amortised cost (Note 9)	(26)	(12)	11	-	-	(27)
Other assets (Note 13)	(26)	(7)	9	-	-	(24)
Total provisions	**(15 743)**	**(16 473)**	**14 162**	**9**	**(12)**	**(18 057)**

8. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Breakdown of securities at fair value through other comprehensive income per type of security and issuer's country as at 31 December 2020:

EUR '000	Government treasury bills	Government bonds	Bank bonds	Corporate bonds	Trust units	**Total**
Czech Republic	-	5 179	-	2 545	-	**7 724**
France	-	-	10 576	-	-	**10 576**
Ireland	-	-	-	-	2 527	**2 527**
Poland	-	8 083	-	-	-	**8 083**
Austria	-	-	5 050	10 025	-	**15 075**
Slovak Republic	20 006	5 796	10 853	5 657	-	**42 312**
Slovenia	-	8 267	-	-	-	**8 267**
United States of America	-	-	38 897	2 030	-	**40 927**
Sweden	-	-	-	5 245	-	**5 245**
Italy	-	9 687	-	-	-	**9 687**
United Kingdom	-	-	2 038	-	-	**2 038**
Total, gross	**20 006**	**37 012**	**67 414**	**25 502**	**2 527**	**152 461**
Provisions (Note 7)	-	-	(164)	(140)	(10)	**(314)**
Total, net	**20 006**	**37 012**	**67 250**	**25 362**	**2 517**	**152 147**

The total volume of securities measured through other comprehensive income is at Stage 1 in accordance with IFRS 9.

Breakdown of securities at fair value through other comprehensive income per type of security and issuer's country as at 31 December 2019:

EUR '000	Government bonds	Bank bonds	Corporate bonds	Trust units	**Total**
Czech Republic	13 449	-	2 792	-	**16 241**
Ireland	-	-	-	5 681	**5 681**
Poland	13 388	-	-	-	**13 388**
Austria	-	-	10 145	-	**10 145**
Slovak Republic	5 856	15 815	5 459	-	**27 130**
Slovenia	8 509	-	-	-	**8 509**
United States of America	-	33 268	-	-	**33 268**
Sweden	-	-	5 677	-	**5 677**
Italy	10 060	-	-	-	**10 060**
Total, gross	**51 262**	**49 083**	**24 073**	**5 681**	**130 099**
Provisions (Note 7)	-	(62)	(87)	(5)	**(154)**
Total, net	**51 262**	**49 021**	**23 986**	**5 676**	**129 945**

The total volume of securities measured through other comprehensive income was at Stage 1 in accordance with IFRS 9.

The method for determining the fair value of securities measured at fair value through other comprehensive income is described in Note 44.

In connection with the transfer of securities from the "Securities at fair value through other comprehensive income" portfolio to the "Securities at amortised cost" portfolio in 2011 as at 31 December 2020, the Bank continues to recognise in equity revaluation reserves from securities at fair value through other comprehensive income in the amount of EUR 4 thousand (loss), which will be amortised in the income statement until the maturity of these securities (2019: a loss of EUR 9 thousand). In 2020, a loss of EUR 5 thousand (2019: a loss of EUR 5 thousand) was amortised in the Income Statement line "Interest income and similar income".

The structure of securities provided as collateral for pooling to the National Bank of Slovakia is as follows:

EUR '000	2020	2019
Bank bonds domestic	10 826	15 795
Bank bonds foreign	15 589	-
Corporate bonds foreign	10 001	10 133
Total	**36 416**	**25 928**

The National Bank of Slovakia is responsible for depositing, uploading and withdrawing individual collateral from the pooling account held with the National Bank of Slovakia.

If, over the period when the debt security is deposited on the pooling account, income on such a debt security is paid in favour of the National Bank of Slovakia, Privatbanka is entitled to a cash amount after making all mandatory deductions in accordance with the applicable legislation.

Securities in pooling are provided as collateral for refinancing transactions with the NBS and loans from the ECB (see Note 14).

9. SECURITIES AT AMORTISED COST

Breakdown of securities at amortised cost per type of security and issuer's country as at 31 December 2020:

EUR '000	Government bonds	Bank bonds	Corporate bonds	Total
Czech Republic	-	-	-	-
Netherlands	-	1 502	-	**1 502**
Latvia	10 135	-	-	**10 135**
Hungary	-	-	10 133	**10 133**
Poland	8 236	-	-	**8 236**
Austria	-	2 501	-	**2 501**
Slovak Republic	38 388	7 185	-	**45 573**
Slovenia	2 886	-	-	**2 886**
Italy	1 009	-	-	**1 009**
Total, gross	**60 654**	**11 188**	**10 133**	**81 975**
Provisions (Note 7)	-	(29)	(23)	**(52)**
Total, net	**60 654**	**11 159**	**10 110**	**81 923**

The total volume of securities at amortised cost is at Stage 1 in accordance with IFRS 9.

Breakdown of securities at amortised cost per type of security and issuer's country as at 31 December 2019:

EUR '000	Government bonds	Bank bonds	Corporate bonds	Total
Netherlands	-	1 504	-	**1 504**
Latvia	10 180	-	-	**10 180**
Hungary	-	-	10 112	**10 112**
Poland	8 176	-	-	**8 176**
Austria	-	2 497	-	**2 497**
Slovak Republic	38 676	11 729	-	**50 405**
Slovenia	2 981	-	-	**2 981**
Italy	6 161	-	-	**6 161**
Total, gross	**66 174**	**15 730**	**10 112**	**92 016**
Provisions (Note 7)	-	(19)	(8)	**(27)**
Total, net	**66 174**	**15 711**	**10 104**	**91 989**

The total volume of securities at amortised cost was at Stage 1 in accordance with IFRS 9.

As at 31 December 2020, the Bank's portfolio of securities at amortised cost included domestic government bonds at an amortised cost of EUR 2 046 thousand (2019: EUR 2 044 thousand) provided as collateral to a local bank.

The structure of securities provided as collateral for pooling to the National Bank of Slovakia and loans from the ECB (see Note 14) is as follows:

EUR '000	2020	2019
Bank bonds domestic	5 169	11 714
Bank bonds foreign	3 992	3 997
Government bonds domestic	-	21 711
Government bonds foreign	-	3 978
Corporate bonds foreign	5 055	10 104
Total	**14 216**	**51 504**

10. INVESTMENTS IN SUBSIDIARIES

Name	Registered office	Share in the registered capital (EUR '000)	Share in the reserve fund (EUR '000)	Share in the registered capital (%)	Carrying amount (EUR '000)
At 31 Dec 2020					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7
At 31 Dec 2019					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7

11. TANGIBLE AND INTANGIBLE ASSETS

a) Changes in tangible and intangible assets as at 31 December 2020

	Tangible assets					Intangible assets				
EUR '000	Buildings	Furniture, fittings and equipment	Motor vehicles	Acquisition of tangible assets	Advances made for tangible assets	Software	Patents and licences	Acquisition of intangible assets	for intangible assets	**Total**
Cost										
At 1 Jan 2020	743	2 985	208	-	-	5 165	92	3	4	**9 200**
Additions	-	315	19	335	-	196	23	216	-	**1 104**
Disposals	-	(21)	(14)	(335)	-	(2)	(1)	(219)	(4)	**(596)**
At 31 Dec 2020	743	3 279	213	-	-	5 359	114	-	-	**9 708**
Accumulated depreciation										
At 1 Jan 2020	(292)	(2 689)	(96)	-	-	(4 708)	(92)	-	-	**(7 877)**
Depreciation and amortisation charges	(37)	(185)	(39)	-	-	(201)	(23)	-	-	**(485)**
Disposals	-	21	15	-	-	2	2	-	-	**40**
At 31 Dec 2020	(330)	(2 853)	(120)	-	-	(4 907)	(113)	-	-	**(8 323)**
Net book value										
At 31 Dec 2020	**413**	**426**	**93**	**-**	**-**	**452**	**1**	**-**	**-**	**1 385**

b) Changes in tangible and intangible assets as at 31 December 2019

	Tangible assets					Intangible assets				
EUR '000	Buildings	Furniture, fittings and equipment	Motor vehicles	Acquisition of tangible assets	Advances made for tangible assets	Software	Patents and licences	Acquisition of intangible assets	for intangible assets	**Total**
Cost										
At 1 Jan 2019	716	2 958	207	10	-	4 868	74	3	-	**8 836**
Additions	27	187	120	325	32	304	19	323	4	**1 341**
Disposals	-	(160)	(119)	(335)	(32)	(7)	(1)	(323)	-	**(977)**
At 31 Dec 2019	743	2 985	208	-	-	5 165	92	3	4	**9 200**
Accumulated depreciation										
At 1 Jan 2019	(256)	(2 693)	(194)	-	-	(4 550)	(74)	-	-	**(7 767)**
Depreciation and amortisation charges	(36)	(156)	(21)	-	-	(166)	(19)	-	-	**(398)**
Disposals	-	160	119	-	-	8	1	-	-	**288**
At 31 Dec 2019	(292)	(2 689)	(96)	-	-	(4 708)	(92)	-	-	**(7 877)**
Net book value										
At 31 Dec 2019	**451**	**296**	**112**	**-**	**-**	**457**	**-**	**3**	**4**	**1 323**

c) Insurance of assets

Tangible assets at the headquarters and the branches were insured against natural disasters for their full cost.

12. RIGHT-OF-USE ASSETS

The table below details the breakdown of changes in right-of-use assets as at 31 December 2020.

EUR '000	Real estate	**Total**
Cost		
At 1 Jan 2020	2 134	**2 134**
Additions	1 363	**1 363**
Disposals	-	**-**
At 31 Dec 2020	3 497	**3 497**
Accumulated depreciation		
At 1 Jan 2020	(688)	**(688)**
Depreciation and amortisation charges	(710)	**(710)**
Disposals	-	**-**
At 31 Dec 2020	(1 398)	**(1 398)**
Net book value		
At 31 Dec 2020	**2 099**	**2 099**

The table below details the breakdown of changes in right-of-use assets as at 31 December 2019.

EUR '000	Real estate	**Total**
Cost		
At 1 Jan 2019	2 024	**2 024**
Additions	110	**110**
Disposals	-	**-**
At 31 Dec 2019	2 134	**2 134**
Accumulated depreciation		
At 1 Jan 2019	-	**-**
Depreciation and amortisation charges	(688)	**(688)**
Disposals	-	**-**
At 31 Dec 2019	(688)	**(688)**
Net book value		
At 31 Dec 2019	**1 446**	**1 446**

13. OTHER ASSETS

EUR '000	2020	2019
Positive fair value of derivatives for trading (Note 26)	12	11
Other debtors	3 279	3 495
Operating advance payments made	259	272
Inventories	22	20
Deferred expenses	182	162
Other receivables from customers	3	4
Total other assets, gross	**3 757**	**3 964**
Provisions for other debtors (Note 7)	(188)	(24)
Total other assets, net	**3 569**	**3 940**

The item "Other debtors" mainly includes receivables as regards invoices from related parties for issues of securities and invoices from clients for services provided by the Bank.

14. DUE TO BANKS

EUR '000	2020	2019
Loan received from the ECB	26 007	55 687
Term deposits of other banks	-	15 008
Other liabilities	7	9
Total due to banks	**26 014**	**70 704**

All payables due to banks are within maturity.

As at 31 December 2020, loans received from the ECB comprise a loan of EUR 26 410 thousand due in March 2021. This loan is secured by securities at the fair value of EUR 36 416 thousand (2019: EUR 25 928 thousand), which are disclosed in the Statement of Financial Position as "Securities at fair value through other comprehensive income", and securities at amortised cost of EUR 14 216 thousand (2019: EUR 51 504 thousand), which are disclosed in the Statement of Financial Position as "Securities at amortised cost".

15. DEPOSITS FROM CUSTOMERS

(a) Breakdown of deposits from customers per type

EUR '000	2020	2019
Current accounts	181 701	179 398
Term deposits	395 930	407 163
Saving deposits	168	191
Other	62	317
Total deposits from customers	**577 861**	**587 069**

As at 31 December 2020, the 15 largest clients accounted for 6.53% of the total deposits from customers, which represents the amount of EUR 37 762 thousand (2019: 10.32%, EUR 60 571 thousand).

A portion of the deposits from customers comprises payables to related parties. Their share of the total deposits from customers as at 31 December 2020 represented 3.6%, totalling EUR 20 642 thousand (2019: 4.8%, EUR 27 900 thousand). Additional information on exposures to related parties is described in Note 37.

All deposits from customers are within maturity.

(b) Breakdown of deposits from customers by sector

EUR '000	2020	2019
Residents		
Financial institutions	9 320	25 873
Non-financial institutions	44 244	45 695
Public administration	4 297	9 211
Non-profit organisations	6 861	6 335
Self-employed	436	684
Individuals	385 268	389 086
Non-residents		
Financial institutions	8 358	18 477
Non-financial institutions	9 730	12 559
Non-profit organisations	186	125
Individuals	109 161	79 024
Total deposits from customers	**577 861**	**587 069**

16. DEBT SECURITIES ISSUED

(a) Breakdown of debt securities issued according to type

EUR '000	2020	2019
Coupon bonds	-	7 943
Total debt securities issued	**-**	**7 943**

All payables under the debt securities issued are within maturity.

(b) Summary of bonds issued

EUR '000	Date of issue	Maturity of issue	Effective interest rate	Face value 2020	Face value 2019
Bond 19 - 1.30% 20200724	07/2017	07/2020	1.3%	-	3 713
Bond 21 - 1.30% 20200918	09/2017	09/2020	1.3%	-	2 142
Bond 23 - 2.00% 20201016	04/2018	10/2020	2.00%	-	2 068
Total face value				**-**	**7 923**
Accrued interest				-	20
Total debt securities issued				**-**	**7 943**

The issued bonds are bearer bonds and all bonds were issued as book-entry securities. Bonds, other than Privatbanka 21 bond, were not issued in a public offering. Bonds were not accepted at the listed securities market or any other stock market.

On 24 July 2020, the Bank repaid the face value of 3 713 units of Privatbanka 19 bonds (ISIN: SK4120013103) totalling EUR 3 713 thousand. On 18 September 2020, the Bank repaid the face value of 1 832 units of Privatbanka 21 bonds (ISIN: SK4120013277) totalling EUR 1 832 thousand. On 16 October 2020, the Bank repaid the face value of 1 695 units of Privatbanka 23 bonds (ISIN: SK4120013996) totalling EUR 1 695 thousand.

The bonds are negotiable and are not subject to any pre-emptive right. The entitlement to receiving the face value plus yield is governed by generally binding legal regulations and the bond issue terms and conditions, the full wording of which is published as required pursuant to Act No. 530/1990 Coll. on Bonds, as amended.

(c) Breakdown of debt securities issued per sector of creditors

EUR '000	2020	2019
Residents		
Financial institutions	-	2 004
Non-financial institutions	-	1 144
Public administration	-	150
Non-profit organisations	-	48
Individuals	-	4 567
Non-residents		
Individuals	-	30
Total debt securities issued	**-**	**7 943**

17. TAX PREPAYMENTS/CURRENT TAX LIABILITY

EUR '000	2020	2019
Tax prepayments	3 277	2 901
Current tax	(2 059)	(3 361)
Total	**1 218**	**(460)**

18. DEFERRED TAX LIABILITY

Deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
EUR '000	2 020	2 019	2 020	2 019	2 020	2 019
Tangible and intangible assets	7	3	-	-	(7)	(3)
Securities – remeasurement in equity	-	-	297	379	297	379
Total	**7**	**3**	**297**	**379**	**290**	**376**

The deferred tax assets and liabilities have been calculated using the corporate income tax rate of 21% (2019: 21%).

The Bank applies a conservative approach for recognising deferred income tax assets and liabilities. All deferred income tax liabilities are recognised in the full amount, while only those deferred income tax assets are recognised for which the Bank expects to realise tax benefits in the future.

The Bank does not expect to realise benefits from tax non-deductible provisions for impairment losses in the future. Therefore, as at 31 December 2020 the Bank did not recognise a deferred income tax asset of EUR 3 989 thousand arising from tax non-deductible provisions for impairment losses (2019: 3 792 thousand EUR).

As at 31 December 2020, under a conservative approach, the Bank does not recognise a deferred tax asset relating to liabilities arising from bonuses to the Bank's employees and management in the amount of EUR 390 thousand (2019: EUR 372 thousand) and other liabilities in the amount of EUR 205 thousand (2019: EUR 174 thousand).

19. LEASE LIABILITIES

The table below details the breakdown of lease liabilities per maturity.

EUR '000	2020	2019
Payable within 1 year	676	698
Payable within 2 years	409	644
Payable within 3 years	511	70
Payable within 4 years	503	23
Payable within 5 years	-	11
Total lease liabilities	**2 099**	**1 446**

All lease liabilities are within maturity.

20. OTHER LIABILITIES

EUR '000	2020	2019
Negative fair value of derivatives for trading (Note 26)	6	2
Various creditors	233	249
Settlement with employees	344	333
Social fund	13	16
Payables to the state budget	1 329	1 471
Payables to social and health insurance companies	360	380
Deferred income	78	79
Accrued expenses	3 129	2 835
Other amounts due to customers	435	445
Total other liabilities	**5 927**	**5 810**

All other liabilities are within maturity.

Accrued expenses mainly comprise liabilities to the Bank's employees and management, and suppliers.

Movements in the social fund:

EUR '000	
Balance at 31 Dec 2019	16
Creation	71
Drawing	(74)
Balance at 31 Dec 2020	13

21. SHARE CAPITAL, CAPITAL RESERVES FROM PROFIT AND REVALUATION RESERVES

Share capital

EUR '000	2020	2019
Issued and fully paid share capital		
756 874 ordinary shares (ISIN SK1110001619 with a face value of EUR 33.19 each)	**25 121**	**25 121**

The total amount of the share capital of EUR 25 121 thousand is registered with the Business Register.

The structure of the Bank's shareholders as at 31 December 2020 and 31 December 2019:

Shareholder	Registered office	No. of shares (face value)	Share in the share capital (%)	Share in voting rights (%)
Penta Investments Ltd.	Limassol	25 121	100,00	100,00
Total		**25 121**	**100,00**	**100,00**

Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Bank is obliged to contribute an amount to the fund each year that is not less than 10% of its annual net profit until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve fund is not available for distribution to shareholders.

Accumulated other comprehensive income from securities, including deferred tax

Accumulated other comprehensive income from securities, including deferred tax represents unrealised revaluation of securities at fair value through other comprehensive income and securities reclassified to the "Securities at amortised cost" portfolio. The revaluation reserves are recognised net of deferred tax effect. Such revaluation reserves are not available for distribution to the shareholder.

22. PROPOSAL FOR DISTRIBUTION OF 2020 PROFIT

EUR '000	2020
Allotment to retained earnings	6 132
Net profit for the current reporting period	**6 132**

23. TAX REVENUE/(EXPENSE)

EUR '000	2020	2019
Current income tax	(2 059)	(3 361)
Deferred income tax owing to temporary differences	4	5
Total	**(2 055)**	**(3 356)**

24. RECONCILIATION OF THEORETICAL AND RECOGNISED INCOME TAX

	2020 Balance (EUR '000)	Applicable rate	Impact on tax
Theoretical tax base	8 187	21%	1 719
Permanent non-deductible differences	517	21%	109
Permanent deductible differences	-	21%	-
Tax losses carried forward – previously unrecognised deferred tax asset	-	21%	-
Unrecognised deferred tax asset – other	343	21%	72
Unrecognised deferred tax asset owing to temporary differences, utilisation of which is uncertain in the future	739	21%	155
Impact of a change in the tax rate			-
Adjusted tax			2 055
Effective tax expense			2 055

	2019 Balance ('000 EUR)	Applicable rate	Impact on tax
Theoretical tax base	12 473	21%	2 619
Permanent non-deductible differences	804	21%	169
Permanent deductible differences	-	21%	-
Tax losses carried forward – previously unrecognised deferred tax asset	410	21%	86
Unrecognised deferred tax asset – other	-	21%	-
Unrecognised deferred tax asset owing to temporary differences, utilisation of which is uncertain in the future	2 297	21%	482
Impact of a change in the tax rate			-
Adjusted tax			3 356
Effective tax expense			3 356

25. OFF-BALANCE SHEET ITEMS

EUR '000	Off-balance sheet assets	2020	2019
1. Receivables from spot transactions with currency instruments:		100	8
2. Receivables from futures ad forwards with currency instruments:		475	1 484
3. Received collaterals:		191 890	258 945
a) Real estate		106 800	123 161
b) Cash		1 699	9 109
c) Securities		13 769	23 811
d) Other		69 622	102 864

EUR '000	Off-balance sheet liabilities	2020	2019
1. Unused credit facilities		9 315	20 625
2. Issued guarantees		327	4 539
3. Liabilities from spot transactions with currency instruments:		100	8
4. Liabilities from futures and forwards with currency instruments		469	1 475
5. Securities provided as collateral		52 678	79 476

The whole amount of undrawn credit facilities and provided guarantees in 2020 and 2019 represents irrevocable commitments.

26. FINANCIAL DERIVATIVES

In its ordinary business activities, the Bank carries out transactions with financial derivatives to manage its liquidity, interest rate, and foreign exchange risks.

2020 EUR '000	Face value in off-balance sheet Receivable	 Payable	Fair value Positive	 Negative	Fair value Net
Currency swaps for trading	474	469	12	(6)	6
Total financial derivatives	**474**	**469**	**12**	**(6)**	**6**

2019 EUR '000	Face value in off-balance sheet Receivable	 Payable	Fair value Positive	 Negative	Fair value Net
Currency swaps for trading	1 486	1 483	11	(2)	9
Total financial derivatives	**1 486**	**1 483**	**11**	**(2)**	**9**

The positive fair value of derivatives as at 31 December 2020 in the amount of EUR 12 thousand (2019: EUR 11 thousand) is recognised in "Other assets" (Note 13). The negative fair value of derivatives as at 31 December 2020 in the amount of EUR 6 thousand (2019: EUR 2 thousand) is recognised in "Other liabilities" (Note 20).

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2020 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	**Total**
Currency swaps for trading	-	-	474	-	-	**474**
Total receivables	**-**	**-**	**474**	**-**	**-**	**474**
Currency swaps for trading	-	-	469	-	-	**469**
Total liabilities	**-**	**-**	**469**	**-**	**-**	**469**

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2019 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Currency swaps for trading	-	1 257	229	-	-	**1 486**
Total receivables	**-**	**1 257**	**229**	**-**	**-**	**1 486**
Currency swaps for trading	-	1 248	235	-	-	**1 483**
Total liabilities	**-**	**1 248**	**235**	**-**	**-**	**1 483**

27. INTEREST INCOME AND SIMILAR INCOME

EUR '000	2020	2019
Interest income on loans and advances to banks and central banks and amounts due to banks and central bank	253	522
Interest income on customers' current accounts	530	675
Interest income on loans to customers	14 417	14 844
Interest income on securities at fair value through other comprehensive income	1 185	1 249
Interest income on securities at amortised cost	1 252	1 366
Total interest income and similar income	**17 637**	**18 656**

28. INTEREST EXPENSE AND SIMILAR EXPENSE

EUR '000	2020	2019
Interest expense from amounts due to banks	512	499
Interest expense from customers' current accounts	128	273
Interest expense from customers' term deposits	4 405	4 556
Interest expense from customers' saving deposits	6	7
Interest expense from debt securities	73	151
Other	97	-
Total interest expense and similar expense	**5 221**	**5 486**

29. FEE AND COMMISSION INCOME

EUR '000	2020	2019
For the following areas:		
Loans	171	224
Payments	63	69
Itemised fees	249	248
Securities trading	9 252	14 038
Portfolio management	713	907
Other areas	79	70
Total fee and commission income	**10 527**	**15 556**

The most significant item of fees from transactions with securities are fees for the issues of securities for related parties.

30. FEE AND COMMISSION EXPENSE

EUR '000	2020	2019
For the following areas:		
Payments	358	264
Interbank transactions	27	25
Securities trading	403	416
Intermediation	297	217
Total fee and commission expense	**1 085**	**922**

31. TRADING PROFIT

EUR '000	2020	2019
Realised profit/loss from transactions with debt securities (measured at fair value through other comprehensive income)	3	(152)
Profit/loss from shares and trust units (measured at fair value through other comprehensive income)	145	151
Profit/(loss) from derivative transactions	(3)	53
Profit/(loss) from FX transactions	81	130
Total trading profit	**226**	**182**

32. GENERAL OPERATING EXPENSES

EUR '000	2020	2019
Wages, salaries and social security payments	8 042	7 963
Other general operating expenses	4 428	4 533
Of which: Costs of auditing financial statements	74	83
Assurance audit services other than the audit of financial statements	24	22
Contributions to the Deposits Protection Fund	45	43
Special levy of financial institutions	1 342	1 323
Contribution to the Resolution Fund	39	39
Rent	159	175
Energy	178	178
Advertising	116	160
IT systems	432	388
Training and education	14	34
Car maintenance and fuel	30	51
Membership fees	397	383
Other services	983	1 172
Other operating expenses	595	482
Total general operating expenses	**12 470**	**12 496**

The number of employees as at 31 December 2020 was 187 (2019: 192). The number of managers as at 31 December 2019 was 6 (2019: 6). The average number of employees for 2020 was 191 (2019: 193), of which managers for 2020: 6 (2019: 6).

Non-audit services and related audit services include, eg: audit of the Bank's prudential reports, preparation of the long-form auditor's report, a review of measures of the securities trader for the NBS, information system security review.

As of 1 January 2012, banks and branches of foreign banks in Slovakia are obliged to pay a special levy (the so-called bank tax) pursuant to Act No. 384/2011 Coll. on Special Levy of Selected Financial Institutions and on Amendment to and Supplementation of Certain Acts (hereinafter the "Special Levy Act"). The banks and branches of foreign banks are obliged to pay a special levy in four quarterly instalments in the amount of one fourth of the annual rate (current annual rate: 0.4% (2019: 0.2%)) of the amount of the Bank's liabilities defined in the Special Levy Act. In accordance with the applicable legislation, only two quarterly instalments of the special levy were paid in 2020, and the levy was cancelled in 2021.

The banks' obligation to pay an annual contribution to the Deposit Protection Fund arises from the provision of Article 5 (1b) of Act of the National Council of the Slovak Republic No. 118/1996 Coll. on the Protection of Bank Deposits and on Amendment to and Supplementation of Certain Acts, as amended.

With effect from 2015, selected financial institutions are obliged to pay contributions to the National Resolution Fund pursuant to Act No. 371/2014 Coll. on Resolution in the Financial Market and on Amendments to and Supplementation of Certain Acts, as amended. The annual contribution for each selected institution is calculated as the ratio of the selected institution's liabilities less the selected institution's own funds and covered deposits to the liabilities of all selected institutions operating in the Slovak Republic, less own funds and covered deposits of all selected institutions operating in the Slovak Republic. The annual contribution is calculated taking into account the business cycle phase and the potential pro-cyclical impact on the financial position of a contributing selected institution and the risk profile of the selected institution.

The Bank does not have any pension arrangements other than the state compulsory pension system. Pursuant to Slovak legal regulations, employers are obliged to pay contributions to social security, health insurance, medical insurance, accident insurance, unemployment insurance, and contributions to a guarantee fund set as a percentage of the gross salary. These expenses are recognised in the Income Statement in the period in which the employee was entitled to the salary.

33. CREATION/RELEASE OF PROVISIONS FOR IMPAIRMENT LOSSES, WRITE-OFF AND ASSIGNMENT OF RECEIVABLES

EUR '000	2020	2019
(Creation) of provisions for receivables	(9 964)	(15 582)
Release of provisions for receivables	9 941	14 098
Written-off receivables, gross	(1)	(15)
(Expense for)/Income from assigned receivables	56	76
Total	**32**	**(1 423)**

34. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

EUR '000	2020	2019
Profit before income taxes	8 187	12 473
Adjustments for non-cash transactions:		
Interest income	(17 637)	(18 656)
Interest expense	5 221	5 486
Remeasurement of derivatives measured at fair value through other comprehensive income	3	(53)
Depreciation/amortisation of tangible and intangible assets	485	398
Provisions for receivables, write-off of and assignment of receivables	(32)	1 423
(Profit)/Loss from modifications	165	468
Provisions for securities	192	22
Net profit/(loss) from the sale of tangible assets	(1)	(15)
Creation/(Release) of provisions for liabilities	(56)	54
Total before interest received/(paid)	**(3 473)**	**1 600**
Interest received	16 396	17 342
Interest paid	(4 552)	(5 318)
Profit before changes in operating assets and liabilities	**8 371**	**13 624**

35. CASH AND CASH EQUIVALENTS

EUR '000	2020	2019
Cash on hand (Note 4)	2 074	1 408
Domestic government treasury bills	20 006	-
Loans and advances to banks due within 3 months	19 791	16 506
Total cash and cash equivalents	**41 871**	**17 914**

36. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Legal disputes

The Bank reviewed of legal proceedings pending against the Bank as at 31 December 2020 and 31 December 2019. As at 31 December 2020, the Bank recognised a provision for litigation in the amount of EUR 15 thousand (2019: EUR 16 thousand).

b) Commitments arising from issue of guarantees

Commitments from guarantees include issued guarantees that represent an irrevocable commitment that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Based on the risk assessment as at 31 December 2020, the Bank recorded a provision to cover losses inherent in balances of undrawn loan commitments and guarantees, which are recognised in the off-balance sheet in the amount of EUR 8 thousand (2019: EUR 65 thousand).

Detailed information on the creation of provisions for liabilities is provided in Note 42. Financial Instruments – Credit Risk.

c) Commitments to extend credit, undrawn loan commitments, unused overdrafts, and approved overdraft loans

The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused authorisations to extend credits in the form of loans or guarantees. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, undrawn and approved overdraft loans. Commitments to extend credit or guarantees issued by the Bank that are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities as they result from contractual terms and conditions in loan agreements.

The table below details the breakdown of credit facilities and provided guarantees per entity and risk level as at 31 December 2020.

EUR '000	Exposure	Provisions for liabilities	Provisions for liabilities, coverage	Estimated value of collateral	Provisions for liabilities and collateral coverage
Future loans provided – individuals	**1 301**	-	-	**64**	**4,92%**
of which: Stage 1	712	-	-	-	-
Stage 2	589	-	-	64	10,87%
Stage 3	-	-	-	-	-
Future loans provided – corporate entities	**8 014**	**8**	**0,10%**	**5 104**	**63,79%**
of which: Stage 1	6 987	8	0,11%	4 324	62,00%
Stage 2	1 027	-	-	780	75,95%
Stage 3	-	-	-	-	-
Bank guarantees	**327**	-	-	**120**	**36,70%**
of which: Stage 1	200	-	-	90	45,00%
Stage 2	27	-	-	-	-
Stage 3	100	-	-	30	30,00%
Total	**9 642**	**8**	**0,08%**	**5 288**	**54,93%**

The table below details the breakdown of credit facilities and provided guarantees per entity and risk level as at 31 December 2019.

EUR '000	Exposure	Provisions for liabilities	Provisions for liabilities, coverage	Estimated value of collateral	Provisions for liabilities and collateral coverage
	1 407	-	-	**177**	**12,58%**
Future loans provided – individuals	754	-	-	-	-
of which: Stage 1	653	-	-	177	27,11%
Stage 2	-	-	-	-	-
Stage 3	**19 218**	**62**	**0,32%**	**8 638**	**45,27%**
Future loans provided – corporate entities	14 071	33	0,23%	4 902	35,07%
of which: Stage 1	5 057	6	0,12%	3 736	74,00%
Stage 2	90	23	25,56%	-	25,56%
Stage 3	**4 539**	**3**	**0,07%**	**3 097**	**68,30%**
Bank guarantees	695	1	0,14%	50	7,34%
of which: Stage 1	3 564	2	0,06%	2 963	83,19%
Stage 2	280	-	-	84	30,00%
Stage 3					
	25 164	**65**	**0,26%**	**11 912**	**47,60%**

37. RELATED PARTY TRANSACTIONS

Related parties as defined by IAS 24 include:

a) A person or a close family member of that person is related to the Bank if that person:
- Has control or joint control over the Bank;
- Has significant influence over the Bank; or
- Is a member of the key management personnel of the Bank or a parent company of the Bank.

b) An entity is related to the Bank if any of the following conditions applies:
- The entity and the Bank are members of the same group (which means that each parent company, subsidiary and fellow subsidiary is related to the others);
- One entity is an associate or joint venture of the Bank (or an associate or joint venture of a member of the group of which the Bank is a member);
- The entity and the Bank are joint ventures of the same third party;
- The entity is a joint venture of a third entity and the Bank is an associate of the same third entity;
- The entity is a post-employment defined benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
- The entity is controlled or jointly controlled by a person identified in (a); and
- A person who has control or joint control over the Bank has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent company of the entity).

The Bank is controlled by Penta Investments Limited, which holds 100% of the voting rights of the Bank's total votes.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits and issue of securities. These transactions were carried out on an arm's length basis and at market prices.

EUR '000	Balance at 31 Dec 2020	Accruals and deferrals at 31 Dec 2020	Total	Provisions for assets at 31 Dec 2020	Interest expense/interest income	Fee and commission income 2020	Trading profit/loss 2020	General operating expenses 2020	(Creation)/ release of provisions for assets 2020	(Creation)/ release of provisions for liabilities 2020
Receivables from the parent company										
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-
Other assets	50	-	50	-	-	50	-	-	-	-
Payables to the parent company										
Deposits from customers	25	-	25	-	-	1	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
Receivables from related parties										
Loans and advances to banks	322	-	322	-	-	-	-	-	-	-
Loans and advances to customers	30 658	-	30 658	(53)	1 470	42	-	-	(18)	-
Securities at fair value through other comprehensive income	583	5	588	(7)	21				(4)	
Other assets	1 565	-	1 565	-	-	7 025	410	-	-	-
Payables to the parent company's related parties										
Due to banks	-	-	-	-	-	-	-	-	-	-
Deposits from customers	18 833	-	18 833	-	(49)	72	-	-	-	-
Debt securities issued	-	-	-	-	(2)	-	1	-	-	-
Provisions for liabilities	2	-	2	-	-	-	-	-	-	10
Other liabilities	73	-	73	-	-	-	(952)	(801)	-	-
Unused credit facilities	1 306	-	1 306	-	-	-	-	-	-	-
Bank guarantees	-	-	-	-	10	-	-	-	-	-
Received collateral	22 973	-	22 973	-	-	-	-	-	-	-

EUR '000	Balance at 31 Dec 2020	Accruals and deferrals at 31 Dec 2020	Total	Provisions for assets at 31 Dec 2020	Interest expense/ interest income 2020	Fee and commission income 2020	Trading profit 2020	General operating expenses 2020	(Creation)/ release of provisions for assets 2020	(Creation)/ release of provisions for liabilities 2020
Receivables from subsidiaries										
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	7	-	7	-	-	-	-	-	-	-
Payables to subsidiaries										
Deposits from customers	18	-	18	-	-	-	-	-	-	-
Receivables from management members and their related parties										
Loans and advances to customers	-	-	-	-	2	-	-	-	7	-
Other assets	4	-	4	-	-	4	-	-	-	-
Payables to management members and their related parties										
Deposits from customers	1 766	-	1 766	-	(4)	1	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-
Other liabilities	1 133	-	1 133	-	-	-	-	(1 108)	-	-
Of which: wages and salaries plus insurance contributions	-	-	-	-	-	-	-	(1 108)	-	-
Unused credit facilities	8	-	8	-	-	-	-	-	-	-
Received collateral	-	-	-	-	-	-	-	-	-	-

EUR '000	Balance at 31 Dec 2019	Accruals and deferrals at 31 Dec 2019	Total	Provisions for assets at 31 Dec 2019	Interest expense/interest income	Fee and commission income 2019	Trading profit/loss 2019	General operating expenses 2019	(Creation)/ release of provisions for assets 2019	(Creation)/ release of provisions for liabilities 2019
Receivables from the parent company										
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-
Other assets	50	-	50	-	-	51	-	-	-	-
Payables to the parent company										
Deposits from customers	57	-	57	-	-	1	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
Receivables from related parties										
Loans and advances to banks	262	-	262	-	20	-	-	-	-	-
Loans and advances to customers	50 696	170	50 866	(35)	1 808	46	-	-	16	-
Securities at fair value through other comprehensive income	373	2	375	(2)	3	-	-	-	(2)	-
Other assets	1 856	-	1 856	-	-	11 623	179	-	-	-
Payables to the parent company's related parties										
Due to banks	-	-	-	-	-	-	-	-	-	-
Deposits from customers	26 568	6	26 574	-	(211)	80	-	-	-	-
Debt securities issued	251	1	252	-	(4)	-	-	-	-	-
Provisions for liabilities	12	-	12	-	-	-	-	-	-	(12)
Other liabilities	73	-	73	-	-	-	(379)	(781)	-	-
Unused credit facilities	2 124	-	2 124	-	-	-	-	-	-	-
Bank guarantees	3 114	-	3 114	-	41	-	-	-	-	-
Received collateral	48 301	-	48 301	-	-	-	-	-	-	-

EUR '000	Balance at 31 Dec 2019	Accruals and deferrals at 31 Dec 2019	Total	Provisions for assets at 31 Dec 2019	Interest expense/ interest income 2019	Fee and commission income 2019	Trading profit 2019	General operating expenses 2019	(Creation)/ release of provisions for assets 2019	(Creation)/ release of provisions for liabilities 2019
Receivables from subsidiaries										
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	7	-	7	-	-	-	-	-	-	-
Payables to subsidiaries										
Deposits from customers	18	-	18	-	-	-	-	-	-	-
Receivables from management members and their related parties										
Loans and advances to customers	125	-	125	(7)	2	-	-	-	(7)	-
Other assets	4	-	4	-	-	5	-	-	-	-
Payables to management members and their related parties										
Deposits from customers	1 251	-	1 251	-	(5)	1	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-
Other liabilities	1 008	-	1 008	-	-	-	-	(1 017)	-	-
Of which: wages and salaries plus insurance contributions	-	-	-	-	-	-	-	(1 017)	-	-
Unused credit facilities	8	-	8	-	-	-	-	-	-	-
Received collateral	-	-	-	-	-	-	-	-	-	-

Wages and salaries and social insurance expenses with respect to the statutory representatives and members of the Supervisory Board were in the amount of EUR 1 108 thousand as at 31 December 2020 (2019: EUR 1 017 thousand). Remuneration policy of statutory representatives is in compliance with CRD III. As at 31 December 2020, short-term bonuses of statutory representatives amounted to EUR 211 thousand (2019: EUR 278 thousand) and long-term bonuses to EUR 680 thousand (2019: EUR 486 thousand). Members of the Bank's bodies did not receive any non-monetary remuneration in 2020 and 2019.

38. FINANCIAL INSTRUMENTS – MARKET RISK

When conducting its business activities, the Bank is exposed to market risks that depend on the level of exposure to individual market risk factors, mainly including changes in interest rates, exchange rates, and prices of capital and financial market instruments.

Given the optimisation of debt securities' classification in the Bank's portfolios, the volatility of prices of these securities did not have a significantly negative impact on the value of the Bank's own funds and its results of operations.

Subsequent to the end of the preceding reporting period, no events occurred that would have a significant impact on market risks resulting from financial instruments.

(a) Interest rate risk

Interest rate risk is the risk of a change in the value of the Bank's portfolios depending on the duration of such portfolios or a change in the net interest income as a result of changes in market interest rates. To measure the interest rate sensitivity of assets and liabilities, the Bank uses a gap analysis. The assets and liabilities of the Bank are classified into time segments depending on the time of revaluation of the instrument or its reinvestment. The size of the interest GAP represents the degree of risk of a potential loss or profit against projected revenues in the form of a change in the net interest income resulting from changes in market interest rates under exactly specified restrictive conditions of the model. The Bank has set a limit for the maximum interest rate exposure defined by the maximum theoretical change of net interest income within one year starting from the moment of the valuation of the Bank's positions.

To measure the interest rate risk of the Banking and Trading Books, the Bank uses interest rate sensitivity based on modified duration and convexity. This method is used on a daily basis to monitor the interest rate sensitivity of all of the Bank's portfolios. The Bank measures its interest rate risk of the Trading Book using the VaR and interest sensitivity model for which it has set maximum risk exposures, which it monitors daily.

As the Bank has significant positions in fixed-interest bonds in its Banking Book, the Bank may decide to partially hedge certain positions. Hedging instruments comprise, for instance, interest-rate swaps through which the Bank may maintain the total interest rate position of the Banking Book at an acceptable level and eliminates profit/(loss) volatility. The Bank currently does not use such hedging instruments.

The average effective interest rates of assets and liabilities as at 31 December 2020 and the periods in which these rates are remeasured are as follows:

EUR '000	Effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	0,00%	129 555	-	-	-	-	2 074	**131 629**
Loans and advances to banks	-0,03%	17 792	1 999	-	-	-	-	**19 791**
Loans and advances to customers	3,57%	49 991	155 483	51 728	37 651	-	23 236	**318 089**
Securities at fair value through other comprehensive income	0,74%	30 007	14 563	44 347	60 631	83	2 516	**152 147**
Securities measured at amortised cost	1,53%	1	12 383	6 451	55 065	8 023	-	**81 923**
Investments in subsidiaries	-	-	-	-	-	-	7	7
Total assets		**227 346**	**184 428**	**102 526**	**153 347**	**8 106**	**27 833**	**703 586**
Due to banks	-0,40%	7	26 007	-	-	-	-	**26 014**
Deposits from customers	0,74%	121 663	38 641	164 097	253 458	-	2	**577 861**
Debt securities issued	-	-	-	-	-	-	-	-
Total liabilities		**121 670**	**64 648**	**164 097**	**253 458**	**-**	**2**	**603 875**
Difference		**105 676**	**119 780**	**(61 571)**	**(100 111)**	**8 106**	**27 831**	**99 711**
Cumulative difference		**105 676**	**225 456**	**163 885**	**63 774**	**71 880**	**99 711**	

The average effective interest rates of assets and liabilities as at 31 December 2019 and the periods in which these rates are remeasured are as follows:

EUR '000	Effective interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	0,00%	128 123	-	-	-	-	1 407	**129 530**
Loans and advances to banks	0,00%	16 506	-	-	-	-	-	**16 506**
Loans and advances to customers	3,52%	85 886	188 600	57 245	59 160	-	2 133	**393 024**
Securities at fair value through other comprehensive income	0,96%	10 134	317	18 945	94 792	81	5 676	**129 945**
Securities measured at amortised cost	1,43%	1	426	11 961	65 390	14 211	-	**91 989**
Investments in subsidiaries	-	-	-	-	-	-	7	7
Total assets		**240 650**	**189 343**	**88 151**	**219 342**	**14 292**	**9 223**	**761 001**
Due to banks	-0,28%	9	15 008	29 573	26 114	-	-	**70 704**
Deposits from customers	0,81%	123 101	39 965	188 099	235 711	-	193	**587 069**
Debt securities issued	1,48%	18	1	7 924	-	-	-	**7 943**
Total liabilities		**123 128**	**54 974**	**225 596**	**261 825**	**-**	**193**	**665 716**
Difference		**117 522**	**134 369**	**(137 445)**	**(42 483)**	**14 292**	**9 030**	**95 285**
Cumulative difference		**117 522**	**251 891**	**114 446**	**71 963**	**86 255**	**95 285**	

The interest rate sensitivity analysis is based on the assumption of a parallel movement of the yield curve. The table below shows the change in net profit and equity of the Bank due to possible changes in interest rates.

EUR '000	Impact on net profit	Impact on equity
2020		
+ 0.5% for all currencies	-	(940)
- 0.5% for all currencies	-	957
2019		
+ 0.5% for all currencies	-	(1 186)
- 0.5% for all currencies	-	1 208

(b) Currency risk

Currency risk is the risk of a change in the value of the Bank's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Bank manages currency risk by determining and daily monitoring of maximum limits of open positions of the banking book for individual currencies. A potential excessive open currency position of the Banking Book is immediately repurchased through an internal operation in the Trading Book. The currency risk of the trading book is limited by maximum exposure using the VaR model. The tables below show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured open currency positions as at year-end 2020 and 2019.

As at 31 December 2020, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	**Total**
Cash and balances with central banks	131 280	144	101	104	**131 629**
Loans and advances to banks	3 249	12 193	2 591	1 758	**19 791**
Loans and advances to customers	314 900	3 189	-	-	**318 089**
Securities at fair value through other comprehensive income	144 450	-	7 697	-	**152 147**
Securities measured at amortised cost	81 923	-	-	-	**81 923**
Investments in subsidiaries	7	-	-	-	**7**
Total assets	**675 809**	**15 526**	**10 389**	**1 862**	**703 586**
Due to banks	26 007	4	-	3	**26 014**
Deposits from customers	551 774	14 570	9 784	1 733	**577 861**
Debt securities issued	-	-	-	-	**-**
Total liabilities	**577 781**	**14 574**	**9 784**	**1 736**	**603 875**
Net FX position	**98 028**	**952**	**605**	**126**	**99 711**

As at 31 December 2019, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	Total
Cash and balances with central banks	129 219	119	98	94	**129 530**
Loans and advances to banks	1 519	11 571	1 831	1 585	**16 506**
Loans and advances to customers	390 759	2 265	-	-	**393 024**
Securities at fair value through other comprehensive income	113 482	8 061	8 402	-	**129 945**
Securities measured at amortised cost	91 989	-	-	-	**91 989**
Investments in subsidiaries	7	-	-	-	**7**
Total assets	**726 975**	**22 016**	**10 331**	**1 679**	**761 001**
Due to banks	70 695	9	-	-	**70 704**
Deposits from customers	555 125	21 568	8 656	1 720	**587 069**
Debt securities issued	7 943	-	-	-	**7 943**
Total liabilities	**633 763**	**21 577**	**8 656**	**1 720**	**665 716**
Net FX position	**93 212**	**439**	**1 675**	**(41)**	**95 285**

The table below is a summary of the currencies in which the Bank has more significant open positions as at 31 December 2020 and 31 December 2019. The sensitivity analysis calculates the effect of possible changes in the exchange rate against the selected currencies on the Income Statement. A positive amount reflects a net potential gain and a negative amount reflects net potential loss on the Income Statement.

EUR '000	Change in exchange rate	Impact on net profit
2020		
CHF	+9,86%	(2)
GBP	+21,16%	(6)
USD	+17,90%	-
CZK	+17,38%	84
PLN	+14,18%	25
2019		
CHF	+8,85%	(2)
GBP	+16,52%	(3)
USD	+11,77%	15
CZK	+5,29%	31
PLN	+7,45%	-

Other than an impact on the Income Statement, changes in FX rates have no impact on equity.

39. MANAGEMENT OF CAPITAL

The Bank's regulatory capital is used to cover unexpected losses to which the Bank may be exposed in performing its activities. The amount of the regulatory capital, risk-weighted exposures and requirements for regulatory capital are monitored on a regular basis, inter alia, by reference to and in compliance with the prudence principles set at European and national levels. The Bank has complied and complies with the set amount of requirements for regulatory capital as well as with all other capital requirements.

In accordance with the prudence principle, regulatory capital is used to cover risks arising from the Banking Book, the Trading Book, to cover other risks (eg. FX risk, commodity risk) and to cover operational risks.

The basic requirement of the regulatory capital management process is to ensure that the Bank has fulfilled all requirements stipulated by the valid legislation while simultaneously observing the effective adequacy of regulatory capital. The Bank manages the structure of its regulatory capital and may apply changes in the structure of its regulatory capital provided in the event that there is a change in economic terms and conditions or a change in the Bank's appetite for risk. The Bank may influence its regulatory capital based on the decision with regard to distribution of profit in a relevant accounting period, or based on the decision about an issue of subordinated debt or based on other decisions to increase capital (eg an increase in the share capital). No significant changes occurred in the policy on regulatory capital management compared to the previous reporting period.

The Bank also applies internal capital management procedures and assesses and calculates requirements for internal capital within the ICAAP process. Internal capital must cover not only legal requirements for individual types of regulatory risk, but also requirements for risks not covered by Tier 1, which are set by the Bank based on the assessment of its risk profile and risk appetite. The Bank has complied and complies with the market regulator's requirements for regulatory capital.

The Bank's regulatory capital comprises Tier 1 and Tier 2 capitals. The Bank's Tier 1 capital includes share capital, the legal reserve fund, retained earnings from previous years, accumulated other comprehensive income and intangible assets (as a decreasing item) and other capital adjustments. The Bank has no Tier 2 capital.

As at 31 December 2020 and 31 December 2019, the structure of the Bank's the regulatory capital is as follows:

EUR '000	2020	2019
Tier 1 capital	**92 907**	**84 114**
Paid up share capital	25 121	25 121
Reserve fund and other funds created from the profit	5 024	5 024
Retained earnings from previous years	62 250	53 135
Accumulated other comprehensive income	1 116	1 424
(-) Intangible assets	(452)	(460)
Other capital adjustments	(152)	(130)
Tier 2 capital	-	-
Subordinated debt	-	-
Regulatory capital	**92 907**	**84 114**

The indicators of the Bank's capital adequacy as at 31 December 2020 and 31 December 2019 are provided in the table below:

EUR '000	2020	2019
Adequacy of regulatory capital (%)	**20,05%**	**15,75%**
Regulatory capital	**92 907**	**84 114**
Total amount of risk exposures	**463 469**	**534 094**
RVE – credit risk and counterparty's credit risk	415 454	484 002
RE – position risk	751	2 038
RE – foreign exchange risk	-	-
RE – adjustment of the receivable measurement	1	1
RE – operational risk	47 263	48 053

Legislation requires that the Bank maintain the proportion of the regulatory capital to total risk-weighted exposure of at least 8%. As at 31 December 2020, a cushion to maintain capital in the amount of 2.5% was in place. The Bank also applies an anti-cyclical cushion to selected exposures and other cushions stipulated by the legislation and the regulator.

During the reporting periods, the Bank's regulatory capital exceeded the minimum requirement level of risk-weighted exposures; thus, the Bank complied with the capital requirement stipulated by the legislation and the regulator. As at 31 December 2020, the regulator assigned the Bank a minimum level of adequacy of its regulatory capital at 13.20%. As at 31 December 2019, the regulator assigned the Bank a minimum level of adequacy of its regulatory capital at 13.70%.

40. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2020:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	131 629	-	-	-	-	-	**131 629**
Loans and advances to banks	17 792	1 999	-	-	-	-	**19 791**
Loans and advances to customers	-	25 875	82 529	181 846	4 602	23 237	**318 089**
Securities at fair value through other comprehensive income	-	44 571	44 249	60 729	82	2 516	**152 147**
Securities measured at amortised cost	-	12 384	6 451	55 065	8 023	-	**81 923**
Investments in subsidiaries	-	-	-	-	-	7	**7**
Tangible and intangible assets	-	-	-	-	-	1 385	**1 385**
Right-of-use assets	-	-	-	-	-	2 099	**2 099**
Tax prepayments	-	1 218	-	-	-	-	**1 218**
Other assets	223	2 515	-	-	-	831	**3 569**
Total assets	**149 644**	**88 562**	**133 229**	**297 640**	**12 707**	**30 075**	**711 857**
Due to banks	7	26 007	-	-	-	-	**26 014**
Deposits from customers	192 430	62 402	159 633	162 373	1 023	-	**577 861**
Debt securities issued	-	-	-	-	-	-	**-**
Current tax liability	-	-	-	-	-	-	**-**
Deferred tax liability	-	-	-	-	-	290	**290**
Provisions for liabilities	-	-	-	-	-	23	**23**
Lease liabilities	-	-	-	-	-	2 099	**2 099**
Other liabilities	1 173	912	-	-	-	3 842	**5 927**
Total liabilities	**193 610**	**89 321**	**159 633**	**162 373**	**1 023**	**6 254**	**612 214**
Difference	**(43 966)**	**(759)**	**(26 404)**	**135 267**	**11 684**	**23 821**	**99 643**
Cumulative difference	**(43 966)**	**(44 725)**	**(71 129)**	**64 138**	**75 822**	**99 643**	

The bulk of deposits from customers payable within seven days in the amount of EUR 192 430 thousand include deposits payable on demand, which are unlikely to be paid to customers within the defined interval.

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2019:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	129 530	-	-	-	-	-	**129 530**
Loans and advances to banks	16 506	-	-	-	-	-	**16 506**
Loans and advances to customers	50	26 107	125 219	238 496	1 020	2 132	**393 024**
Securities at fair value through other comprehensive income	-	248	18 938	105 002	81	5 676	**129 945**
Securities measured at amortised cost	-	427	11 961	65 390	14 211	-	**91 989**
Investments in subsidiaries	-	-	-	-	-	7	**7**
Tangible and intangible assets	-	-	-	-	-	1 323	**1 323**
Right-of-use assets	-	-	-	-	-	1 446	**1 446**
Other assets	192	3 058	-	-	-	690	**3 940**
Total assets	**146 278**	**29 840**	**156 118**	**408 888**	**15 312**	**11 274**	**767 710**
Due to banks	9	15 008	29 573	26 114	-	-	**70 704**
Deposits from customers	186 046	62 474	181 081	156 700	574	194	**587 069**
Debt securities issued	-	19	7 924	-	-	-	**7 943**
Current tax liability	-	460	-	-	-	-	**460**
Deferred tax liability	-	-	-	-	-	376	**376**
Provisions for liabilities	-	-	-	-	-	81	**81**
Lease liabilities	-	-	-	-	-	1 446	**1 446**
Other liabilities	1 297	1 030	-	-	-	3 483	**5 810**
Total liabilities	**187 352**	**78 991**	**218 578**	**182 814**	**574**	**5 580**	**673 889**
Difference	**(41 074)**	**(49 151)**	**(62 460)**	**226 074**	**14 738**	**5 694**	**93 821**
Cumulative difference	**(41 074)**	**(90 225)**	**(152 685)**	**73 389**	**88 127**	**93 821**	

The bulk of deposits from customers payable within seven days in the amount of EUR 186 046 thousand include deposits payable on demand, which are unlikely to be paid to customers within the defined interval.

41. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk in the ability of the Bank to fulfil its obligations towards its business partners as a result of a difference in the maturity of assets and liabilities. The Bank monitors and manages liquidity on the basis of expected cash flows from assets and liabilities. To measure liquidity exposure, the Bank uses the liquidity gap method. The Bank defines and manages the risk of the ability to fulfil its obligations by means of specified limits of discrepancy in the maturity of assets and liabilities in individual time segments.

There have been no events since the end of the preceding reporting period that would have a material impact on the liquidity risk arising from financial instruments.

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2020:

EUR '000	On demand	Less than 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Due to banks	-	25 985	-	-	-	-	**25 985**
Deposits from customers	181 816	73 233	164 928	162 798	-	-	**582 775**
Debt securities issued	-	-	-	-	-	-	-
Total liabilities	**181 816**	**99 218**	**164 928**	**162 798**	**-**	**-**	**608 760**

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2019:

EUR '000	On demand	Less than 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Due to banks	-	15 020	29 518	25 985	-	-	**70 523**
Deposits from customers	177 427	72 475	189 280	152 680	-	-	**591 862**
Debt securities issued	-	29	7 992	-	-	-	**8 021**
Total liabilities	**177 427**	**87 524**	**226 790**	**178 665**	**-**	**-**	**670 406**

42. FINANCIAL INSTRUMENTS – CREDIT RISK

As a result of its business activities arising from the provision of loans, bank guarantees, hedging transactions, and investment and mediation activities, the Bank is exposed to credit risk representing the risk that the debtor or the counterparty will be unable to meet its contractual liabilities.

The Bank mitigates the credit risk by setting limits for exposures with respect to an individual debtor or economically-connected group of debtors or to individual sectors of the national economy in order to avoid inadequate credit risk concentration owing to the accumulation of receivables from a counterparty, an economically-connected group, and/or an economic sector. The actual exposure is regularly compared to the set limits. The Bank treats a receivable from a debtor or an economically connected group of debtors that exceeds 5% of the Bank's regulatory capital as a significant exposure. The excessive concentration of credit exposure to one entity has an effect on the ability of the debtor to pay its obligations. The Bank has created a system of internal reports on significant credit exposures to debtors which exceed the specified limit.

Credit risk is also managed by the regular monitoring of financial assets and the subsequent analysis of the debtor's ability to repay its liabilities and by obtaining quality and liquid collateral for the Bank's receivables from credit activities.

Factors leading to the creation of provisions for defaulted financial assets (Stage 3) in 2020:
1. The client was unable to realise its business plan in the agreed time;
2. The client failed to meet the agreed contracting terms and conditions despite the Bank's notices;
3. The client failed to repay the granted loan in a due and timely manner.

Provisioning
According to the classification of financial assets, the Bank creates provisions for:
- Financial assets assessed on an individual basis (the "specific provision");
- Financial assets assessed on a portfolio basis (the "portfolio provision").

The Bank creates two types of provisions from the time perspective:

- Initial provisions; and
- Behavioural provisions.

The Bank creates initial provisions for each standard individually-assessed financial asset upon its initial measurement. A standard financial asset is any financial asset of the Bank for which customer (debtor) default was not identified.

The Bank creates behavioural provisions for individually-assessed financial assets where the Bank identifies a significant change in the credit risk of a financial asset or customer default. The Bank creates and reassesses behavioural provisions over the lifetime of a financial asset.

The provisioning model for individually-assessed financial assets has three stages, as illustrated below:

Change in credit quality since the initial recognition

Stage 1	Stage 2	Stage 3
Standard financial assets (initial recognition)	Problematic/high-risk financial assets (assets with a significant increase in the credit risk since the initial recognition)	Defaulted financial assets (assets showing signs of default)
Recognition of expected losses on financial assets		
Expected losses over 12 months (initial provisions)	Expected losses over the lifetime of a financial asset (behavioural provisions)	Expected losses over the lifetime of a financial asset (behavioural provisions)

The main criteria for identifying a significant change in credit risk (Stage 2) are as follows:

- Debtor's delay in repaying the Bank's receivable by more than 30 days;
- Deterioration of the debtor's internal rating by more than 2 degrees;
- Non-compliance with contractual financial covenants; and
- Other criteria based on an assessment by the credit risk division in line with internal guidelines.

A client's default (Stage 3) is assessed by the Bank automatically, based on the following criteria:

- Debtor's internal rating is E or F, ie based on an assessment of all financial and non-financial criteria, the Bank concludes that the debtor will probably fail to pay its liabilities to the Bank in the full amount;
- The debtor is in default with the repayment of its liability to the Bank for more than 90 days.

As regards the COVID-19 pandemic, the Bank did not modify its internal methodology for the classification of clients into individual stages. Given the size of the loan portfolio and the low number of clients, the Bank's employees are able to manage each credit transaction on a case-by-case basis, continuously monitor its financial situation and evaluate the possible impact of the pandemic on the client.

The Bank uses the expected loss given default (LGD) and the probability of default (PD) to calculate specific provisions for customers not in default (Stage 1 and 2). This calculation uses a PD from data obtained from the Bloomberg system and an LGD from data obtained from the Bank's loan portfolio. The final amount of the portfolio provision is the product of PD and LGD.

In the event of customer default (Stage 3), the Bank determines the amount of the behavioural provision based on the comparison of the carrying amount of a financial asset and its recoverable amount, ie the sum of estimated cash flows from the customer's economic activities and the estimated cash flows from the financial asset's collateral discounted using the effective interest rate. The positive difference arising from the two amounts is the provision amount, ie the impairment of the financial asset.

For the assets classified as standard or high-risk (Stage 1 and 2), interest income is recognised based on the gross carrying amount of the assets. For defaulted assets (Stage 3), interest income is recognised based on the net carrying amount of assets.

In line with IFRS rules, the Bank creates portfolios of financial assets that have common characteristics, and for which there is a possibility of their impairment if objective circumstances arise in the relevant market. Portfolios of the Bank's financial assets comprise the portfolio of loans and current account overdrafts provided to the Bank's employees, the portfolio of current account overdrafts provided to private banking customers, the portfolio of loans provided to individuals as housing loans, the portfolio of loans provided to private banking customers as loans secured by the portfolio of customers' securities in the Bank's management and the portfolio of loans provided to the Bank's customers included in the Bank's watch list (closer monitoring).

Provisions created for the portfolios of financial assets are used to cover losses that have not been identified at an individual level, however, based on the objective historical experience, they are embedded in individual portfolios. Portfolio-based impairment losses are intended to reflect a potential risk of loss that cannot be individually identified, but based on historical experience and an impact of current economic market conditions are included in individual portfolios.

The Bank's calculation of the amount of portfolio provisions is the same as the calculation of specific provisions for customers not in default. However, this calculation uses a PD obtained from the National Bank of Slovakia's statistics and an LGD from data obtained from the Bank's loan portfolio.

The Bank monitors changes in economic conditions of the relevant market and based on this assessment it may increase PD calculated from the statistical data of the National Bank of Slovakia to reflect such information in the amount of expected losses. The Bank also tests the model quality by comparison with the realised losses from the loan portfolio for the previous year.

For other assets (except loans and securities) overdue by more than 30 days, the Bank automatically creates a provision at 100% of the carrying amount of the Bank's receivable.

Creation of provisions for liabilities
The Bank creates provisions for off-balance sheet liabilities and calculates their amounts in a manner similar to provisions for assets.

Credit exposure, collaterals

EUR '000	2020	2019
Total credit exposure	**336 529**	**410 876**
Value of received collaterals accepted by the Bank	293 073	354 659
Of which: immovables	131 827	160 830
cash	1 668	5 939
securities	35 672	40 467
other	123 906	147 423
Secured portion of credit exposure	186 602	247 033
Unsecured portion of credit exposure	149 927	163 843

The value and type of collateral required to secure the credit risk of the counterparty in credit transactions depend on the extent of the credit risk in a specific credit transaction as identified by the Bank in the course of processing of the transaction. The Bank reassesses the value of individual collaterals on a regular basis.

In its internal instructions, the Bank has defined acceptance procedures as well as procedures for valuing individual collateral types depending on their liquidity.

The most frequently-used collateral types:
- Project funding: real estate, current and future receivables arising from sale arrangements and other contracts on the sale, or lease of real estate, securities, personal guarantees;
- Operational funding: trade receivables, inventories;
- Investment funding: clients' movable and immovable assets;
- Securities, personal guarantees.
- Loans provided to individuals: immovable assets, securities, personal guarantees.

Assumptions in estimates of collateral realisable value

The value of collateral is determined as follows:
- Immovable and movable assets: on the basis of a comparison between the general value of assets in an expert's opinion and the fair value of assets as identified by means of an expert's estimate. If there is a difference between these two values, the lower shall be considered the value of the immovable or movable asset;
- Cash collateral: the value of the collateral equals the nominal value of a receivable from deposit; in respect of securities, market prices as at the date of valuation are used; and
- Receivables, promissory notes, guarantees and accession to liability by a third party: on the basis of their nominal value, net of ratings of a sub-debtor, debtor under a promissory note or a guarantor.

The value accepted by the Bank is the value that results from multiplying the collateral's value by the relevant coefficient representing the degree of acceptance of a specific type of collateral. This value is concurrently the value for calculating impairment losses.

The value of collateral is regularly updated according to type and any anticipated volatility in prices, and is performed on at least an annual basis. In the event of collateral impairment, the Bank will require additional security for the credit transaction or will realise other measures to reduce the credit risk.

The amount the Bank can receive from the sale of collateral could differ from the value accepted by the Bank for credit risk management purposes, and such difference could be material.

Credit quality of assets not recognised as default
Overview of the quality of financial assets resulting from credit transactions that are not recognised as default (ie in Stage 3):

Customers - 2020	Receivables (EUR '000)			Share (%)
	Stage 1	Stage 2	Total	
Rating A1 - A3	13 145	-	13 145	4,46%
Rating B1 - B3	109 126	5 182	114 308	38,78%
Rating C1 - C3	71 131	32 508	103 639	35,16%
Rating D1 - D3	7 133	43 675	50 808	17,24%
Retail	1 247	11 579	12 826	4,35%
Total	**201 782**	**92 944**	**294 726**	**100,00%**

Customers - 2019	Receivables (EUR '000)			Share (%)
	Stage 1	Stage 2	Total	
Rating A1 - A3	14 865	613	15 478	3,97%
Rating B1 - B3	121 320	4 639	125 959	32,30%
Rating C1 - C3	119 522	35 868	155 390	39,85%
Rating D1 - D3	1 776	67 955	69 731	17,88%
Retail	10 049	13 321	23 370	5,99%
Total	**267 532**	**122 396**	**389 928**	**100,00%**

Based on the balances as at 31 December 2020 and 31 December 2019, there are no clients with accredited external ratings in the Bank's loan portfolio.

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as defaulted as at 31 December 2020:

Securities at fair value through other comprehensive income	EUR '000	Share (%)
Aa2	10 826	7,12
Aa3	13 169	8,66
A1	14 782	9,72
A2	55 367	36,39
A3	28 103	18,47
Baa1	2 540	1,67
Baa2	2 034	1,34
Baa3	9 687	6,37
No rating	15 639	10,26
Total	**152 147**	**100,00**

Securities measured at amortised cost	EUR '000	Share (%)
Aaa	5 170	6,31
Aa2	1 998	2,44
Aa3	1 496	1,83
A2	46 624	56,91
A3	15 517	18,94
Baa3	11 118	13,57
Total	**81 923**	**100,00**

All securities in the Bank's portfolios are in Stage 1 in accordance with IFRS 9.

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as defaulted as at 31 December 2019:

Securities at fair value through other comprehensive income	EUR '000	Share (%)
Aaa	5 015	3,86
Aa2	10 779	8,30
Aa3	19 125	14,72
A2	27 000	20,78
A3	31 083	23,92
Baa1	11 298	8,69
Baa3	10 060	7,74
No rating	15 585	11,99
Total	**129 945**	**100,00**

Securities measured at amortised cost	EUR '000	Share (%)
Aaa	5 207	5,66
Aa2	6 507	7,07
Aa3	1 503	1,64
A2	46 851	50,93
A3	12 675	13,78
Baa1	2 981	3,24
Baa3	16 265	17,68
Total	**91 989**	**100,00**

The total volume of securities in the Bank's portfolios are classified in Stage 1 as per IFRS 9.

Method of determining transaction ratings of clients
The Bank determines an internal rating of corporate customers on the basis of their financial or project, and non-financial and behavioural analyses.

The financial analysis is based on an assessment of individual items of clients' assets, liabilities, expenses and revenues, realisation of assets and equity, and the subsequent calculation of basic financial ratios (indebtedness, liquidity, profitability, activity and cash flow).

Project analysis is aimed at evaluating measurable parameters of a client's business plan (eg share of own funds, contractual arrangement regarding project exit, investment horizon term).

Non-financial analysis is based on an individual assessment of non-financial aspects (qualitative indicators), ie external and internal impacts affecting the client's business activities, and an assessment of the macro and micro environment in which the client operates.

The behavioural analysis of a client includes the identification of adverse events that may result in an impairment of the client's and Bank's assets (eg legal dispute, receivable restructuring, client default – non-compliance with contractual obligations).

Based on the sum of points assigned from the above analyses, clients are assigned a rating. The rating system consists of 14 rating classes, where A1 is the best and F the worst rating.

Rating	Number of Points	
A1	36 – 34	Low risk
A2	33 – 32	
A3	31 – 29	
B1	28 – 27	Medium risk
B2	26 – 24	
B3	23 – 22	
C1	21 – 19	Acceptable risk
C2	18 – 17	
C3	16 – 14	
D1	13 – 12	High risk
D2	11 – 9	
D3	8 – 7	
E	6 - 4	Default
F	3 – 0	

The Bank continuously monitors the credit quality of its clients and updates the rating class of each client annually.

Ageing structure of financial assets overdue, recognised as unimpaired
As at 31 December 2020, the Bank recognised overdue loan receivables classified as unimpaired in the total amount of EUR 1 717 thousand, of which principal amounted to EUR 1 089 thousand and interest and charges amounted to EUR 628 thousand (of which interest and charges in the amount of EUR 3 thousand overdue by more than 30 days).

As at 31 December 2019, the Bank recognised overdue loan receivables classified as unimpaired in the total amount of EUR 1 080 thousand, of which principal amounted to EUR 523 thousand and interest and charges amounted to EUR 557 thousand (of which interest and charges overdue by more than 30 days amounted to EUR 12 thousand).

Restructured assets
Under the Bank's internal guidelines, a restructured receivable and/or debt financial asset means an asset if the Bank has provided the client with a relief as the client has, or will have, difficulties in meeting its financial obligations (financial difficulties). A relief is a change in the repayment schedule (temporary decrease of one or more payments, or postponement of one or more payments or a part thereof), or an extension of the receivable's maturity.

In 2020, the Bank carried out restructuring by extending the overall maturity or adjusting the repayment schedules of receivables from loan transactions in the total amount of EUR 8 308 thousand, of which short-term loans amounted to EUR 35 thousand and long-term loans to EUR 8 273 thousand. The Bank did not consider the authorisation of the deferral of repayments pursuant to Act No. 67/2020 Coll. to be restructuring (forced modification). If a loan receivable was deemed to be restructured before the authorisation of the legislative deferral of repayments, its classification as restructured remained unchanged.

In 2019, the Bank carried out restructuring by extending the overall maturity or adjusting the repayment schedules of receivables from loan transactions in the total amount of EUR 13 778 thousand, of which short-term loans amounted to EUR 710 thousand and long-term loans to EUR 13 068 thousand.

The reasons mainly included the failure to implement a business plan, or exit from a project on the anticipated date, exit of a major tenant, or owing to pending legal proceedings the debtor was unable to sell assets, the proceeds of which had been designated to repay the Bank's loan receivables. In all instances the Bank treated its position so that in the future the Bank is not exposed to higher risks than as at the moment of closing the deal.

As at 31 December 2020, the Bank recorded restructured assets in the amount of EUR 16 642 thousand (2019: EUR 16 077 thousand), for which provisions amounting to EUR 3 003 thousand have been created (2019: EUR 1 836 thousand).

Major credit risk exposures

(a) Concentrations to national economy sectors as at 31 December 2020

EUR '000	2020			
	Stage 1	Stage 2	Stage 3	Total
Non-banking financial services	5 696	-	1 897	7 593
Manufacturing	21 160	3 958	6 944	32 062
Construction	-	-	6 861	6 861
Agriculture and forestry	-	1 820	407	2 227
Commercial real estate – cash flow based	39 256	5 693	4 522	49 471
Commercial real estate – collateral based	43 508	17 025	19 053	79 586
Commerce and services	78 625	51 608	-	130 233
Other	8 810	457	-	9 267
Individuals	772	11 535	1 656	13 963
Healthcare services	3 855	713	-	4 568
Recreational, cultural and sport activities	100	135	463	698
Total	**201 782**	**92 944**	**41 803**	**336 529**

(b) Concentrations to national economy sectors as at 31 December 2019

EUR '000	2019			
	Stage 1	Stage 2	Stage 3	Total
Non-banking financial services	42 221	-	-	42 221
Manufacturing	24 156	4 777	7 254	36 187
Construction	-	-	6 177	6 177
Agriculture and forestry	-	2 801	408	3 209
Commercial real estate – cash flow based	45 173	8 267	2 114	55 554
Commercial real estate – collateral based	51 614	27 881	2 523	82 018
Commerce and services	73 465	63 790	213	137 468
Other	10 005	505	-	10 510
Individuals	9 976	13 261	1 752	24 989
Recreational, cultural and sport activities	100	135	507	742
Healthcare services	10 822	979	-	11 801
Total	**267 532**	**122 396**	**20 948**	**410 876**

(c) Concentrations to significant groups of related clients

The Bank continuously monitors exposures to the groups of related clients to comply with regulatory limits. The maximum exposure to a debtor or an economically-connected group of clients as defined by regulations is capped at EUR 23 227 thousand owing to the amount of the Bank's capital as at 31 December 2020 (2019: EUR 21 028 thousand).

Maximum credit exposure

EUR '000	2020	2019
Cash and balances with central banks	131 629	129 530
Loans and advances to banks	19 791	16 506
Loans and advances to customers	318 089	393 024
Securities at fair value through other comprehensive income	152 147	129 945
Securities measured at amortised cost	81 923	91 989
Investments in subsidiaries	7	7
Other assets	3 569	3 940
Total	**707 155**	**764 941**
Unused credit facilities	9 315	20 625
Issued guarantees	327	4 539
Total	**9 642**	**25 164**
Total credit exposure	**716 797**	**790 105**

43. OPERATIONAL, LEGAL AND OTHER RISKS

The Bank creates a database of operational losses and events that represent a potential risk of loss. Given the size of the Bank and the related frequency of events of operational risks and losses, it is very unlikely that such archived cases of operational risks will represent a sufficiently-large sample with acceptable informative value for the creation of more-sophisticated solutions for operational risk management. The operational losses and events database is used by the senior management mainly as a general rule for the assessment and monitoring of this risk factor.

Legal and other risks are monitored in the Bank's internal control system in the event of reviews made by the Department of Internal Control and Audit and by divisions of the headquarters.

44. FAIR VALUES

The fair value is the amount at which an asset could be exchanged or a liability settled in an arm's length transaction. The estimated fair values of the Bank's financial assets and financial liabilities at the year-end were as follows:

EUR '000	Carrying amount 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
Financial assets				
Cash and balances with central banks	131 629	131 629	129 530	129 530
Loans and advances to banks	19 791	19 791	16 506	16 506
Loans and advances to customers	318 089	320 494	393 024	395 491
Securities at fair value through other comprehensive income	152 147	152 147	129 945	129 945
Securities measured at amortised cost	81 923	85 553	91 989	95 968
Investments in subsidiaries	7	7	7	7
Financial liabilities				
Due to banks	26 014	26 050	70 704	70 862
Deposits from customers	577 861	579 161	587 069	587 503
Debt securities issued	-	-	7 943	7 985

The method used to determine the fair values of selected financial assets as at 31 December 2020:

EUR '000	Market price **Level 1**	Own model with reference to market prices **Level 2**	Own model without reference to market prices **Level 3**	**Total**
Loans and advances to customers	-	-	320 494	**320 494**
Securities at fair value through other comprehensive income	120 643	25 866	5 638	**152 147**
Securities measured at amortised cost	80 383	5 170	-	**85 553**
Investments in subsidiaries	-	-	7	**7**

There were no transfers between the measurement levels in 2020.

The method used to determine the fair values of selected financial assets as at 31 December 2019:

EUR '000	Market price **Level 1**	Own model with reference to market prices **Level 2**	Own model without reference to market prices **Level 3**	**Total**
Loans and advances to customers	-	-	395 491	**395 491**
Securities at fair value through other comprehensive income	98 565	25 928	5 452	**129 945**
Securities measured at amortised cost	84 256	11 712	-	**95 968**
Investments in subsidiaries	-	-	7	**7**

There were no transfers between the measurement levels in 2019.

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

Cash and balances with central banks
The carrying value of cash and balances with central banks approximate their fair value.

Loans and advances to banks
The fair value of current accounts with other banks approximates their carrying value. For amounts with a remaining maturity of less than three months, it is also reasonable to use the carrying value as an approximation of their fair value. The fair values of other loans and advances to banks are calculated by discounting the future cash flows using current interbank rates.

Loans and advances to customers
Loans and advances to customers are measured net of impairment losses for receivables. The fair values of loans and advances to customers are calculated by discounting the future cash flows using the current market rates increased by updated risk interest margin by loans. Subsequently, this amount is reduced by the provision for the relevant receivable (Level 3).

Securities at fair value through other comprehensive income
Securities at fair value through other comprehensive income are reported in quoted market prices (Level 1). If the quoted market price is not available, or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods (Level 2 and Level 3). The fair value reflects provisions. The method of calculating the fair value of financial instruments is described in Note 2.6.7.

Securities at amortised cost
Securities measured at amortised cost are reported in quoted market prices (Level 1). If the quoted market price is not available, or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods (Level 2 and Level 3). The fair value reflects provisions. The method of calculating the fair value of financial instruments is described in Note 2.6.7.

Investments in subsidiaries
Net value of assets approximates fair value.

Due to banks
The fair value of current accounts with other banks approximates their carrying value. For other amounts due to banks with a remaining maturity of less than three months, it is also reasonable to use the carrying values as an approximation of their fair value. The fair values of other deposits by banks are calculated by discounting the future cash flows using the current interbank rates.

Deposits from customers
The fair values of deposits from customers are calculated by discounting the future cash flows using the current market rates effective as at year-ends.

Debt securities issued
The fair values of debt securities issued are calculated by discounting the future cash flows using the current market rates effective as at year-ends.

45. SIGNIFICANT SUBSEQUENT EVENTS

As at the reporting date, there were no significant events that would require adjustments to the data or information disclosed in these financial statements as at 31 December 2020.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were signed and authorised by the Board of Directors on 26 March 2021.

Mgr. Ing. Ľuboš Ševčík, CSc. Chairman of the Board of Directors and General Director	Ing. Vladimír Hrdina Member of the Board of Directors and Executive Director