

# **Prima banka Slovensko, a.s.**

Separate Financial Statements  
For the Year Ended 31 December 2019

Prepared in Accordance with International Financial Reporting  
Standards as Adopted by the European Union  
and Independent Auditor's Report

## Contents

### **Independent Auditor's Report**

#### **I. Financial Statements**

Separate Statement of Financial Position  
Separate Statement of Comprehensive Income  
Separate Statement of Cash Flows  
Separate Statement of Changes in Equity

#### **II. Notes to the Separate Financial Statements**

1. General Information about Prima banka
2. Basis for the Preparation of Separate Financial Statements
3. Significant Accounting Procedures
4. Significant Accounting Estimates
5. Notes to the Financial Statements

## **Independent Auditor's Report**

To the Shareholders, Supervisory Board, Board of Directors and to the Audit Committee of Prima banka Slovensko, a.s.:

### ***Report on the Audit of the Financial Statements***

#### *Opinion*

We have audited the financial statements of Prima banka Slovensko, a.s. ("the Bank"), which comprise the separate statement of financial position as at 31 December 2019, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flow statement 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 of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). 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 Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Statutory Audit") related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the financial statements, and we have fulfilled other requirements of these provisions related to ethics. 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. This matter was 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 this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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### ***Adequacy of impairment provisions in compliance with IFRS 9***

The appropriateness of impairment provisions is a key area of judgement for the Bank's management. The determination of the expected credit losses is an inherently uncertain process involving various assumptions.

The Bank performs an assessment of impairment provisions for defined portfolios of exposures. This requires significant judgment of the management regarding the identification of the significant change in credit risk, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization, all of which involves a high level of complexity due to the changing credit environment.

Due to the significance of loans to customers that are subject to impairment, representing 82% of total assets, and the complexity of the impairment provisions' estimations, we consider this area to be a key audit matter.

We documented our understanding of the credit risk management policies in the Bank, including the policy of granting loans and advances, as well as our understanding of the Bank's policies and procedures related to the estimation of expected credit losses. Based on these procedures, we performed tests of controls implemented by the Bank and assessed their operating effectiveness, which included the process of granting loans, monitoring the economic and financial situation of borrowers' and identification of impairment triggers, as well as the process of calculating impairment provisions for customer loan portfolio.

We used specialists who helped us to assess the models, assumptions and completeness of data used by the Bank for the purposes of creating impairment provisions, including assumptions underlying the probability of default and loss given default.

We performed analytical review procedures related to the development of the structure and characteristics of the credit portfolio, including the impairment provisions, reflecting the quality of the customer loan portfolio in the light of the impairment provisions for expected credit losses for loans to customers aimed at identifying portfolios of loans to customers with understated impairment provisions. In addition, on separate samples of individually significant credit exposures and individually non-significant credit exposures we have carried out substantive testing of their classification into risk categories, so-called 'staging'. For individually significant credit exposures classified in stages 2 and 3 we reviewed whether impairment provisions recognized by the Bank are sufficiently accurate.

We also assessed whether the financial statements' disclosures appropriately reflect the Bank's exposure to the credit risk and are compliant with IFRS EU.

Refer to the Notes to the Financial Statements paragraphs 3e) Financial Instruments, 5.1. Financial Assets at Amortised Costs and 5.28. Risk Management part 1. Credit Risk.



#### *Other Matter*

The financial statements of Prima banka Slovensko, a.s. for the year ended 31 December 2018 were audited by another auditor whose report dated 28 February 2019 expressed an unmodified opinion on those statements.

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

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

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

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

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and Regulation (EU) No. 537/2014 of the European Parliament and the Council, 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 presented information as well as whether the financial statements captures the underlying transactions and events in a manner that leads to their 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***

Management is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the financial statements expressed above does not apply to other information contained in the annual report.

In connection with audit of the financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

The annual report was not available to us as at the date of issue of the auditor's report on the audit of the financial statements.

When we obtain the annual report, we will consider whether the Company's annual report contains information, disclosure of which is required by the Act on Accounting and based on procedures performed during the audit of financial statements, we will express our opinion considering whether:

- Information disclosed in the annual report, prepared for 2019, is consistent with the financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

Additionally, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its situation, obtained in the audit of the financial statements.

*Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council*

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Bank on 18 June 2019 based on our approval by the General Meeting of Shareholders of the Bank held on 25 April 2019. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 1 year.

Consistence with Additional Report to Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on the same date as the issue date of this report.

Non-audit Services

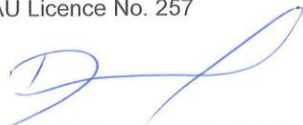
No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Bank and we remain independent from the Bank in conducting the audit.

In addition to statutory audit services, we provided to the Bank and its controlled undertakings the following services:

- Limited review of interim financial statements as at 30 June 2019.
- „Comfort letter procedures” in connection with covered bonds issued by the Bank.
- Limited review of loans receivables used as collateral of Eurosystems credit operation as at 30 June 2019 for the second quarter of the year 2019 submitted by Bank according to § 37 article 4 note b) Decision of National Bank of Slovakia (“NBS”) no. 2/2015 of 28 April 2015 on the implementation of the Eurosystem's monetary policy framework in the Slovak Republic, as amended.
- Preparation of long-form auditor's report for the NBS.
- Audit of prudential returns as at 31 December 2019 reported to the NBS.
- Agreed-upon procedures related to adequacy of measures according to Article 71 h) to 71 k) of the Act no. 566/2001 on Securities, in accordance with Article 76 of the Act on Securities, for 2019.
- Review of IT security.

4 March 2020  
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.  
SKAU Licence No. 257



Ing. Dalimil Draganovský, statutory auditor  
SKAU Licence No. 893

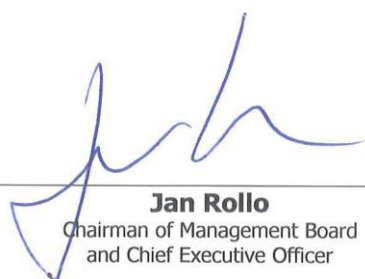
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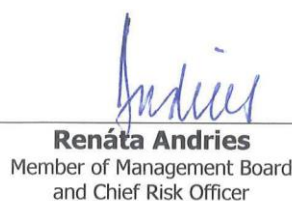
**I. FINANCIAL STATEMENTS****Separate Statement of Financial Position**

<b>Assets</b>	<b>Note</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Cash		99 048	95 750
Financial assets at amortised cost, of which:	1	4 022 390	3 464 239
Balances with central banks		349 638	97 006
Due from banks		3 851	7 095
Loans and advances to customers		3 437 837	3 054 489
Debt securities		231 064	305 649
Financial assets held for trading – derivatives	2	103	52
Financial assets at fair value through other comprehensive income	3	3 100	2 141
Hedging derivatives	2	0	0
Non-current tangible assets	4	20 613	14 412
Non-current intangible assets	5	1 893	1 894
Deferred tax asset	6	9 432	9 570
Other assets	7	22 139	11 988
<b>Assets total</b>		<b>4 178 718</b>	<b>3 600 046</b>
<b>Liabilities and equity</b>			
Financial liabilities at amortised cost, of which:	8	3 776 781	3 220 271
Loans and deposits received from central banks		0	100 000
Due to banks		21 341	30 517
Customer deposits		3 251 476	3 087 787
Debt securities		503 964	1 967
Liabilities from leasing	9	7 711	0
Hedging derivatives	10	0	427
Provisions and reserves	11	14 791	15 942
Other liabilities	12	33 414	36 633
<b>Liabilities total</b>		<b>3 832 697</b>	<b>3 273 273</b>
Equity (except profit for the current year)		328 961	304 760
Profit/loss for the current year after tax		17 060	22 013
<b>Equity total</b>	<b>13</b>	<b>346 021</b>	<b>326 773</b>
<b>Liabilities and equity total</b>		<b>4 178 718</b>	<b>3 600 046</b>

The notes on pages 5 to 49 are an integral part of these separate financial statements. The separate financial statements were signed and authorised for issue on 4 March 2020:



**Jan Rollo**  
 Chairman of Management Board  
 and Chief Executive Officer



**Renáta Andries**  
 Member of Management Board  
 and Chief Risk Officer



Separate Statement of Comprehensive Income for the year ended 31 December 2019  
 prepared in accordance with International Financial Reporting Standards as adopted by the European Union  
 (in thousands of €)

## Separate Statement of Comprehensive Income

	Note	31.12.2019	31.12.2018
Interest income		75 420	82 513
Interest expense		(15 690)	(17 226)
<b>Net interest margin</b>	<b>14</b>	<b>59 730</b>	<b>65 287</b>
Fee and commission income		28 465	27 763
Fee and commission expense		(6 102)	(5 467)
<b>Net fee and commission income</b>	<b>15</b>	<b>22 363</b>	<b>22 296</b>
Dividend income		3	6
Net income from financial transactions	16	79	489
Other operating income	17	81	2 266
Specific contributions of selected financial institutions	18	(8 163)	(7 017)
<b>Net income from banking activities</b>		<b>74 093</b>	<b>83 327</b>
Personnel expenses		(24 990)	(24 144)
Depreciation		(4 776)	(3 852)
Purchased output and services		(22 023)	(27 075)
<b>General and administrative expenses</b>	<b>19</b>	<b>(51 789)</b>	<b>(55 071)</b>
<b>Net operating income</b>		<b>22 304</b>	<b>28 256</b>
Net allocation to provisions on customer receivables		(5 300)	(3 320)
Net allocation to provisions on off-balance sheet risks		786	(1 729)
Net loss on write-off of receivables		(592)	(1 093)
<b>Net allocation to provisions</b>	<b>20</b>	<b>(5 106)</b>	<b>(6 142)</b>
<b>Loss before tax</b>		<b>17 198</b>	<b>22 114</b>
Deferred income tax benefit		(138)	(101)
<b>Income tax</b>	<b>21</b>	<b>(138)</b>	<b>(101)</b>
<b>Net result for the current period</b>	<b>22</b>	<b>17 060</b>	<b>22 013</b>
Net profit (loss) oper share (face value of € 399) in €		30.016	38.731
Net profit (loss) oper share (face value of € 67) in €		5.040	6.504
Net profit (loss) oper share (face value of € 5) in €		0.376	0.485
Net profit (loss) oper share (face value of € 1) in €		0.075	0.097
<b>Other Comprehensive Income</b>			
<b>Items that may be reclassified to the income statement</b>			
Financial assets available for sale		1 192	1 555
Cash flow hedge		(174)	(177)
<b>Items that can not be reclassified to the income statement</b>			
Equity instruments valued at fair value through another comprehensive income		1 170	394
Actuarial gains (losses)		0	(74)
<b>Total</b>	<b>13</b>	<b>2 188</b>	<b>1 698</b>
<b>Comprehensive income (expenses) total</b>		<b>19 248</b>	<b>23 711</b>

**Separate Statement of Cash Flows**

	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Cash flows from operating activities</b>		
Profit before tax	17 198	22 114
Adjustment:		
Depreciation and amortisation	4 776	3 852
Loss on property sold	41	(1 805)
Profit of revaluation available for sale financial assets	1 192	1 555
Profit/(Loss) of revaluation on financial assets held for trading - derivatives	(51)	(52)
Profit/(Loss) of revaluation on securing derivatives	(601)	(1 522)
Profit of revaluation on financial assets at fair value through other comprehensive income	211	167
Proceeds from shares and equity interests	(3)	(6)
Interest expense	15 690	17 226
Interest income	(75 420)	(82 513)
Provisions and reserves for losses, net	4 638	5 099
Net loss on written off receivables	(762)	554
Net profit off postponed assets	1 354	540
Other non-cash transactions	(489)	(3 368)
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>	<b>(32 226)</b>	<b>(38 159)</b>
<b>Changes in operating assets</b>		
Due to the NBS	(242 392)	79 820
Interbank loans and advances	731	55 790
Loans and advances to customers	(388 438)	(257 076)
Other assets	(9 998)	(5 115)
<b>Changes in operating liabilities</b>		
Loans received from the central banks	(100 000)	100 000
Due to other banks	(9 194)	150
Customer deposits	162 834	7 157
Other liabilities	(5 214)	35 816
Interest paid	(15 216)	(16 311)
Interest received	78 325	76 982
<b>Net cash flows from operating activities</b>	<b>(560 788)</b>	<b>39 054</b>
<b>Cash flows from investment activities</b>		
Purchase of non-current tangible and intangible assets	(1 310)	(2 108)
Proceeds from sale of non-current tangible and intangible assets	(1)	6 187
Proceeds from financial assets at amortised cost – debt securities	72 037	22 661
Proceeds from postponed assets	(1 354)	(540)
Proceeds from shares and equity interests	3	6
<b>Net cash flows from investment activities</b>	<b>69 375</b>	<b>26 206</b>
<b>Cash flows from financial activities</b>		
Proceed from bonds issued	502 500	0
Repayment of the bonds issued	(104)	(117 500)
<b>Net cash flows from financing activities</b>	<b>502 396</b>	<b>(117 500)</b>
Net increase/(decrease) in cash flows	10 983	(52 240)
Cash and cash equivalents as the beginning of year (Note 23)	119 662	171 903
Cash and cash equivalents as the end of year (Note 23)	130 644	119 662

**Separate Statement of Changes in Equity**

	Share capital	Share premium funds	Legal Reserve Fund	Other capital funds	Revaluation reserves	Profit/loss from		Equity total
						previous years	current year	
<b>1.1.2018</b>	<b>226 773</b>	<b>71 190</b>	<b>2 743</b>	<b>54 078</b>	<b>(2 537)</b>	<b>(63 489)</b>	<b>14 944</b>	<b>303 702</b>
Impact of the introduction of IFRS 9						(640)		(640)
<b>1.1.2018 after impact of the introduction of IFRS 9</b>	<b>226 773</b>	<b>71 190</b>	<b>2 473</b>	<b>54 078</b>	<b>(2 537)</b>	<b>(64 129)</b>	<b>14 944</b>	<b>303 062</b>
Distribution of profit/(loss) from previous years			1 494			13 450	(14 944)	0
Results for the year 2018							22 013	22 013
Profit on revaluation of available-for-sale financial assets					1 555			1 555
Cash flow hedge					(177)			(177)
Revaluation of equity instruments					394			394
Actuarial gains					(74)			(74)
<b>31.12.2018</b>	<b>226 773</b>	<b>71 190</b>	<b>4 237</b>	<b>54 078</b>	<b>(839)</b>	<b>(50 679)</b>	<b>22 013</b>	<b>326 773</b>
<b>1.1.2019</b>	<b>226 773</b>	<b>71 190</b>	<b>4 237</b>	<b>54 078</b>	<b>(839)</b>	<b>(50 679)</b>	<b>22 013</b>	<b>326 773</b>
Distribution of profit/(loss) from previous years			2 202			19 811	(22 013)	0
Results for the year 2019							17 060	17 060
Profit on revaluation of available-for-sale financial assets					1 192			1 192
Cash flow hedge					(174)			(174)
Revaluation of equity instruments					1 170			1 170
<b>31.12.2019</b>	<b>226 773</b>	<b>71 190</b>	<b>6 439</b>	<b>54 078</b>	<b>1 349</b>	<b>(30 868)</b>	<b>17 060</b>	<b>346 021</b>

## II. NOTES TO THE FINANCIAL STATEMENTS

### 1. General Information about Prima banka

#### Basic Information

Prima banka Slovensko, a. s., (hereinafter "Prima banka" or the "Bank") is a joint-stock company whose registered seat is at Hodžova 11, Žilina. The Bank was established on 14 May 1992 and incorporated with the Commercial Register on 1 January 1993. The Bank has a general banking licence, issued by the National Bank of Slovakia (hereinafter "NBS"). The identification number of the Bank is 31 575 951 and its tax identification number is 202 037 2541.

Prima banka does not have a branch abroad and is not an unlimited guarantor in any other business entity.

#### Statutory and Management Bodies

##### Board of Directors

Chairman: Iain Child  
Vice-Chairman: Marián Slivovič  
Member: Evžen Ollari

##### Management Board

Chairman: Jan Rollo  
Members: Henrieta Gahérová  
Renáta Andries  
Peter Novák, from 19 August 2019  
Stanislav Kubala, until 31 October 2019

##### Proxy

Igor Tuší

In line with the entry in the Commercial Register dated 12 July 2013, a member of the Management Board acts together with a proxy, and the proxy attaches their signature with a comment specifying the procura.

#### Scope of Activities

Prima banka is a universal bank offering a wide range of banking and financial services, which operates only in the Slovak Republic. Its core activities include deposit taking, loan provision, domestic and cross-border money transfers, provision of investment services, investment activities, and supplementary services under Act No. 566/2001 Coll. on Securities and Investment Services, etc. The valid list of all the Bank activities is disclosed in the Commercial Register.

Prima banka does not carry out any research and development activities.

#### Shareholder Structure of Prima banka

	Stake in Share Capital in %	
	31.12.2019	31.12.2018
PENTA INVESTMENTS LIMITED, Cyprus	99.49	99.31
Shareholders under 1%	0.51	0.69
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

The direct parent company is PENTA INVESTMENTS LIMITED, Agias Fylaxeos & Polygnostou, 212 C&I CENTER, 2nd floor, P.C. 3082 Limassol, Cyprus, registered in the Companies Register, maintained by the Ministry of Industry, Trade and Tourism, Company Registrar and Bankruptcy Administrator Department, Nicosia, registration number: HE158996.

The ultimate parent company that prepares the consolidated financial statements is PENTA INVESTMENTS LIMITED seated at 3<sup>rd</sup> floor, Osprey House, 5-7 Old Street, St Helier, JE2 3RG, Jersey, Channel Islands, registration number: 109645. The consolidated financial statements are available at PENTA INVESTMENTS LIMITED Jersey, Channel Islands.



### Share Capital and its Structure

Prima banka may only issue registered shares issued in book-entry form. Their transfer is made in accordance with the Securities Act in the Central Securities Depository, which maintains the list of shareholders. The transferability of shares is unlimited.

The structure of ordinary shares as at 31 December 2019 and 31 December 2018 is presented in the following overview:

Type	ISIN	Kind	Form*	Number	Face value
Ordinary shares	SK1110001270	Registered	Book-entered	100 200 pcs	€ 399
Ordinary shares	SK1100013671	Registered	Book-entered	100 200 pcs	€ 67
Ordinary shares	SK1110014927	Registered	Book-entered	701 400 pcs	€ 5
Ordinary shares	SK1110015676	Registered	Book-entered	14 705 882 pcs	€ 1
Ordinary shares	SK1110017037	Registered	Book-entered	24 000 000 pcs	€ 1
Ordinary shares	SK1110017508	Registered	Book-entered	22 257 415 pcs	€ 1
Ordinary shares	SK1110019579	Registered	Book-entered	115 609 441 pcs	€ 1

\*all shares are book-entered in the Central Securities Depository of the Slovak Republic

### Number of Employees

	31.12.2019
<b>Average number of employees, of which:</b>	<b>862</b>
Average number of managers	7

As at 31 December 2019, Prima banka had 865 employees (31 December 2018: 873) and offered its services at 123 branches (31 December 2018: 124 branches).

## 2. Basis for the Preparation of Financial Statements

The key accounting principles applied for the preparation of these financial statements are outlined in the text below:

### Purpose of Preparation

The purpose of preparing these separate financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll. as amended. Prima banka prepares its separate financial statements under special regulations - Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Financial Reporting Standards (hereinafter "IFRS"). The financial statements are intended for general use and information, and are not intended for a specific user or the consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

The Bank's separate financial statements for the previous reporting period (as at 31 December 2018) were approved and authorised for issue on 28 February 2019 and subsequently approved on 25 April 2019 by the General Meeting.

### Basis of Presentation

The separate financial statements of the Bank (the "financial statements") for the year ended 31 December 2019 and comparative data for the year ended 31 December 2018 have been prepared in accordance with IFRS as adopted by the European Union (the "EU") in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Commission Regulation (EC) 1126/2008 of 3 November 2008 was issued to integrate all standards and interpretations issued by the International Accounting Standards Board (hereinafter "IASB") and the International Financial Reporting Interpretations Committee (hereinafter "IFRIC") that have been fully adopted for use in the Community as at 15 October 2008, except for IAS 39 relating to the recognition and measurement of financial instruments in a single document. Commission Regulation (EC) 1126/2008 of 3 November 2008 replaces Commission Regulation (EC) 1725/2003 of 29 September 2003.

IFRS, as adopted by the EU, do not currently differ from IFRS as issued by the IASB, except for certain requirements for portfolio hedge accounting under IAS 39, which has not been approved by the EU. Prima banka has determined that portfolio hedge accounting under IAS 39 would have had no impact on its financial statements had it been approved by the EU at the balance sheet date.

### Standards and Interpretations in Current Period

The Bank has adopted all new and revised standards and interpretations issued by the IASB and IFRIC for the IASB that have been approved for use in the EU and which relate to its activities and are effective for accounting periods beginning on or after 1 January 2019.

### Basis for the Preparation of Financial Statements

The financial statements were prepared using the accrual basis of accounting, ie the effects of transactions and other events are recognised by the Bank when they occur. Transactions and events are reported in the financial statements for the periods to which they relate.

The financial statements have been prepared under the assumption that the Bank will continue its operations as a going concern in the foreseeable future. The financial statements are prepared under the historical cost convention; certain financial instruments were revalued to fair value.

The reporting currency used in these financial statements is the euro ("€"). Value figures are presented in thousands unless stipulated otherwise. Value figures in brackets represent negative values. Tables in these financial statements may contain rounding differences.

If necessary, comparative data was reclassified to ensure the comparability of presented data.

### Segment Reporting

Due to the fact that the internal management of business activities of the Bank is not divided into operating segments with a specific approach, the Bank does not publish information on segments according to *IFRS 8 Operating segments*.

### 3. Significant Accounting Procedures

#### a) Transaction Date

The transaction date with respect to the purchase and sale of financial assets and liabilities such as term deposits, securities, and derivatives is the date when the deal is arranged. On such a date it is recognised in the off-balance sheet accounts. On the settlement date, the entry on the off-balance sheet accounts is reversed and recognised on the balance sheet accounts.

#### b) Transactions in a Foreign Currency

Transactions made in a foreign currency are translated to euros using the reference exchange rate determined and announced by the European Central Bank (ECB) on the date preceding the transaction date. Assets and liabilities denominated in a foreign currency are translated to euros as at the reporting date using the exchange rate valid as at the reporting date. Exchange rate gains/(losses) from all foreign exchange transactions are included in the statement of comprehensive income item "*Net trading income*".

#### c) Cash and Balances with Central Banks

Cash and balances with central banks comprise cash held, and cash balances with the National Bank of Slovakia (NBS), including the compulsory minimum reserve. The compulsory minimum reserve with the NBS is a required deposit with restricted drawing to be held by all commercial banks licensed in the Slovak Republic.

#### d) Cash and Cash Equivalents in the Statement of Cash Flows

Cash and cash equivalents consist of cash on hand, asset balances on correspondent banks' accounts and cash deposits with the NBS, which are considered to be liquid, ie their maturity is up to three months. This category does include the minimum compulsory reserves held with the NBS, whose use (drawing) is restricted, however, they can be used if liquidity is required.

#### e) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. With effect from 1 January 2018, the Bank classifies financial instruments based on the business model for management of financial instruments in accordance with its investment strategy and differentiates the following categories of financial instruments:

- Financial assets/financial liabilities measured at amortised cost (AC)
- Financial assets/financial liabilities measured at fair value through profit or loss (FVTPL);
- Financial assets measured at fair value through other comprehensive income (FVOCI).

#### Business model assessment

- Classification of financial assets into separate groups or portfolios based on their management;
- Identification of the objectives which the Bank uses to manage each group or portfolio;
- Based on such objectives, the Bank classifies each group or portfolio of financial assets into the relevant business model;
- For assets classified as held to collect contractual cash flows, an assessment of the correct classification based on the analysis of the cash flows characteristics (the SPPI test "Solely payments of principal and interest").

The Bank has the following business models:

- Loan and investment portfolio (financial assets held only to collect contractual cash flows);
- Portfolio for trading (mainly derivatives);
- Equity share portfolio;
- Hedging portfolio.

#### Contractual cash flows

The Bank assesses whether contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (under a standard loan agreement, consideration for the time value of money and credit risk are usually the most significant elements of interest). However, in such an agreement, interest may also include consideration for other basic risks (eg liquidity risk) and expenses (eg administrative expenses) related to holding a financial asset over a certain period. Interest may also include a profit margin which is consistent with the standard loan agreement.

The time value of money is the element of interest that only provides consideration for the passage of time, ie the time value of the money element does not provide consideration for other risks or expenses related to holding a financial asset.

#### **Financial assets measured at amortised cost**

Financial assets are measured at amortised cost if both of the following conditions are met:

- The financial asset is held in a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In this business model, the Bank holds the following financial assets:

- Loans and receivables;
- Debt securities;

ie non-derivative financial instruments with fixed or determinable payments and maturity.

Loans and receivables are measured at amortised cost using the effective interest rate less provisions. Upon signing a loan agreement, a confirmation on the provision of a credit facility is recognised in the off-balance sheet accounts on the trade date. On the date the funds are drawn, the loan is reclassified to the statement of financial position. The unused portion of the loan recognised in the off-balance sheet accounts represents for the Bank, contingent liabilities with an inherent credit risk for which the Bank records a provision and a reserve. Provisions and reserves are recorded for off-balance sheet liabilities, such as unused credit facilities, issued bank guarantees, and letters of credit.

Debt securities are mainly securities issued by the government, or other securities of good quality, which the Bank intends to hold to maturity. They are also measured at amortised cost using the effective interest rate and potential impairment is reflected in provisioning. Interest income, discounts and premiums are accrued on a daily basis and recognised in the statement of comprehensive income line "*Interest and similar income*".

#### **Financial assets measured at fair value through other comprehensive income (FVTOCI)**

**To classify a financial instrument in this portfolio, both of the following conditions must be met:**

- The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank holds the following financial assets in this business model:

- Equity instruments: solely equity securities of companies, in which participation is compulsory for the Bank (S. W. I. F. T. s. c., Belgium and VISA INC., USA). Dividends are recognised in the statement of comprehensive income under "Dividend income".

To determine the fair value of these securities, the Bank uses Level 3.

#### **Impairment of financial assets measured at amortised cost and fair value through other comprehensive income**

The calculation of expected credit losses requires the use of accounting estimates and judgments. For expected credit losses, the Bank recognises a provision for financial assets measured at amortised cost and at fair value through other comprehensive income as at the reporting date. Provisions are recognised in the statement of financial position.

The Bank measures expected credit losses to reflect:

- The unbiased and probability-weighted amount of a loss that is determined by assessing various possible outcomes;
- The time value of money;
- Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions available as at the reporting date without unreasonable costs or disproportionate effort.

IFRS 9 sets a 3-stage impairment model that is based on changes that have occurred in credit quality since the initial recognition date, ie a financial asset must be monitored over its full lifetime.



Upon its initial recognition, a financial asset is classified in stage 1. At this stage, a financial asset is measured at a provision equal to a 1-year expected credit loss.

If a significant increase in credit risk is subsequently identified since the initial recognition without the asset being impaired, the asset is moved to stage 2. If a financial asset is credit-impaired, it is classified in stage 3. In stages 2 and 3, a financial asset is measured at a provision equal to the expected credit loss over the full lifetime of the asset.

If the impairment of a financial asset was measured in an amount equal to expected credit losses over the asset's full lifetime in the previous reporting period, but such conditions are not met as at the current reporting date, the Bank measures the impairment loss in an amount equal to a 1-year expected credit loss as at the current reporting date.

The assessment of a financial asset's credit risk is based on the estimates as to the determination of the probability of default (PD), exposure at default (EaD) and loss given default (LGD).

The assessment of credit impairment is performed on a collective or individual basis.

At each reporting date, the Bank assesses whether there has been a change in the risk of default over the expected lifetime of a financial asset since the initial recognition by comparing the risk of default at the initial recognition to the risk of default as at the reporting date, taking into account reasonable and supportable information.

#### Significant increase in credit risk

The assessment of significance comprises future-focused information and is always performed as at the reporting date.

Receivables in portfolios measured solely using statistical models are classified in stage 2 if the client has at least one significant receivable overdue by more than 6 days.

Other receivables are classified in stage 2 on an individual basis. A decision to change the classification and the required coverage amount, if any, is made by the Credit Committee for individually assessed cases based on a monthly review when individual cases are discussed. The review process includes consultation on the opinion of the responsible approval department that expertly and comprehensively assesses the condition of the counterparty and change thereof.

#### Defaulted financial assets

A financial asset is in default if:

- The debtor is in arrears with material receivables whose contractual instalments are overdue by more than 90 days;
- It is likely that the debtor will not repay its liabilities in full without the Bank taking action, such as realisation of the collateral.

The above criteria are applied to all financial assets held by the Bank and are compliant with the definition of default used for internal credit risk management purposes.

#### **Probability of default**

Probability of default is a risk parameter determining the probability that a debtor will fail to repay its financial liability over the next 12 months, or over the remaining lifetime of the liability. Hence, it is the probability that an exposure not in default will default within 12 months, or over the remaining lifetime.

#### Loss given default

Loss given default is a risk parameter defined as the difference between the value of 100% and the value of the recovery rate at the moment of completion of the debt collection or its write-off. Loss given default represents the Bank's expectation in terms of the loss on a defaulted exposure.

#### **Exposure at default**

Exposure at default is the volume of funds the Bank expects to be repaid at the time of default over the next 12 months, or over the remaining lifetime. The assumption of an early repayment of a debt is also taken into consideration in the calculation.

#### **Collateral**

The Bank primarily accepts the following types of collateral:

- Immovable assets;
- Movable assets;
- Cash collateral;
- Receivables;
- Securities;
- Guarantees.

The Bank uses the following legal instruments:

- Pledge;
- Blocking of cash;
- Security transfer of receivables;
- Security transfer of the right.

The Bank remeasures individual types of collateral on a regular basis, and the measurement methodology and its frequency depend on the type of collateral. The recoverable amount of collateral is derived from the pledge value, up to the amount of the current value of the receivable. The recoverable amount consists of a number of uncertainties and risks; therefore, the amounts upon realisation of collateral may differ from the estimates, and such a difference may be significant.

When realising collateral, the Bank uses:

- Voluntary auction;
- Foreclosure proceedings;
- Sale of receivables;
- Sale of the pledge over the Bank's receivable in bankruptcy proceedings.

### **Write-off of Receivables**

The existence of unrecoverable receivables is connected with business risk, which is to a various degree inherent in all banking activities. If a particular receivable meets the conditions for a write-off, Prima banka writes off the receivable directly into expenses in the statement of comprehensive income under "*Net profit/(loss) on write-off of receivables*" and recognised impairment provisions are reversed. Receivables for which the right of collection did not expire continue to be recognised in off-balance sheet accounts. The Committee for Non-Performing Loans decides which write-off method will be applied with respect to a particular receivable. When a written-off receivable is collected, income is recognised in the statement of comprehensive income under "*Net profit/(loss) on write-off of receivables*".

### **Financial Assets Measured at Fair Value Through Profit or Loss**

This portfolio consists of financial instruments held for trading, including derivatives used solely to manage position exposures, mainly liquidity risk and currency risk.

Financial assets disclosed in the portfolio at fair value through profit or loss are initially recognised at acquisition cost excluding transaction costs and are subsequently re-valued to fair value through statement of comprehensive income.

The Bank records unrealised gains and losses from the revaluation of these assets to their fair values in the statement of comprehensive income line "*Net trading income*". Interest income from financial instruments at fair value through statement of comprehensive income is accrued on a daily basis and recorded in the statement of comprehensive income line "*Interest and similar income*".

### **Financial Liabilities**

#### Financial liabilities measured at amortised cost (AC)

All of the Bank's financial liabilities, except for derivative financial liabilities, are recognised at amortised cost.

#### Financial liabilities measured at fair value through profit or loss (FVTPL)

In this category, the Bank only recognises derivatives with negative values.

### **Sale and Repurchase Agreements (Repo Transactions)**

A repo transaction is the provision of a loan secured by a security transfer. Securities sold under selling and repurchasing contracts are recognised in the Statement of Financial Position as assets under "*Financial assets at fair value through profit or loss*" or "*Financial assets at AC*". Depending on the nature of the liability, a payment received from a counterparty is recognised under "*Due to banks*" or "*Customer deposits*".

Securities purchased under agreements to purchase and resell ("reverse repo transactions") are recognised in the statement of financial position in the account "*Due from banks*" or "*Loans and advances to customers*" as appropriate. Received collateral, which is a security, is recognised in the off-balance sheet accounts from the settlement date until the maturity date of the deal. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

### **Derecognition of Financial Instruments**

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Bank substantially retains all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Bank derecognises financial liabilities only when the Bank's obligations are discharged or cancelled, or when they expire.

### **Offsetting Financial Instruments**

The Bank only offsets financial assets and financial liabilities if this results from a contractual arrangement and the Bank's intention is to settle an asset and a liability on a net basis, and/or concurrently. Financial instruments subject to offsetting are presented in the statement of financial position in a net amount.

### **f) Financial Derivatives**

Prima banka's financial derivatives include currency and interest rate swaps and forwards. They are held to hedge risk. In the statement of financial position, they are recognised at fair value under "*Financial assets held for trading – derivatives*" and "*Hedging derivatives*". An underlying derivative financial instrument is recognised in off-balance sheet accounts on the transaction date. It is derecognised from the off-balance sheet accounts on the date the respective derivative is closed.

Changes in the fair value of derivatives are recognised on the balance sheet accounts to ensure that the positive fair values of derivatives are shown as an asset and negative fair values of derivatives are shown as a liability with a corresponding entry in revenues and expenses recognised in the statement of comprehensive income under "*Net profit from financial transactions*".

The revaluation of swaps and other derivatives in the Banking Book and the hedging instruments takes place once a month based on their discounted cash flows using the market curves.

### **g) Hedging**

Prima banka is hedged against volatility risk in the fair values ("Fair Value Hedge") of recognised assets, which relates to the risk of interest rate volatility and may affect the Bank's expenses or revenues. Hedged items include are long-term loans with a structured interest rate. The gain or loss from the fair value measurement of a hedging instrument is recognised in revenues or expenses. The gain or loss on a hedged item attributable to the hedged risk is recognised in profit or loss and the impact of changes in fair values of hedging instruments and hedged items on the P/L is insignificant. After 1 January 2018, the Bank continues to apply the accounting policy in line with IAS 39.

### **h) Fair Value of Financial Instruments**

The fair value of financial instruments corresponds to the quoted market price as at the reporting date, without a reduction for transaction costs.

Fair values of financial instruments not quoted in active markets are determined using valuation techniques such as the theoretical price derived from the yield 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. If practicable, 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.

When the discounted cash flows method is used, estimated future cash flows are based on the most accurate management estimates and the discount rate represents the market rate for instruments with similar conditions and maturity. When valuation models are used, input values are based on market values valid as at the reporting date.

Fair values of derivative instruments that are not traded on a stock exchange are derived from the estimated values the Bank would obtain under standard business conditions at the termination of the contract as at the reporting date after considering the market conditions and the creditworthiness of the relevant counterparty.

#### **i) Non-Current Tangible and Intangible Assets**

Non-current tangible and intangible assets are stated at acquisition cost less accumulated depreciation/amortisation together with accumulated impairment losses. Prima banka applies a linear method to depreciate or amortise non-current tangible and intangible assets based on the estimated useful life. Depreciation/amortisation starts in the month in which the assets were placed into service.

Low-value non-current tangible assets with a cost of up to € 1 700 and low-value non-current intangible assets with a cost of up to € 2 400 and a useful life of over one year are expensed in the year they are placed into service.

Land and works of art are not depreciated.

For accounting depreciation/amortisation of assets Prima banka uses the following depreciation/amortisation periods:

	Depreciation/Amortisation Period in Years
Computers, office tools, cars, etc.	4 - 6
Software	up to 10
Inventory	6 – 10
Office and banking equipment	4 - 12
Buildings and structures	40*

\*The buildings owned by the Bank are depreciated over 40 years, reconstruction work on ATM 10 years, other reconstruction work on leased buildings according to the lease contract; engineering constructions from 12 to 20 years and advertising constructions from 4 to 6 years.

#### **j) Impairment of Tangible and Intangible Assets**

At each balance sheet date, Prima banka reviews the carrying amounts of its non-current tangible and intangible assets to determine whether there is any indication that the 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 the impairment loss (if any).

The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. If any of the amounts above 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 is reduced to equal the recoverable amount. The impairment loss is recognised directly through the statement of comprehensive income under "Depreciation".

#### **k) Leases**

IFRS 16 supersedes International Accounting Standard 17 Leases ('IAS 17') and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. The new Standard introduces a number of limited scope exceptions for lessees which include:

- Leases with a lease term of 12 months or less and containing no purchase options,
- Leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unchanged and the distinction between operating and finance leases will be retained.

#### **Leases in which the Bank is a lessee**

The accompanying notes are an integral part of these financial statements.

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



The new Standard, when initially applied, had a significant impact on the financial statements. Bank recognised in statement of financial position assets and liabilities relating to operating leases for which the Bank acts as a lessee. The Bank recognises new assets and liabilities (impact in amount of € 7,000 thousand) in the statement of financial position for its operating leases in respect of branch and office premises. The nature and expenses related to those leases was changed because the Bank will recognise a depreciation charge for right-of-use assets and interest expense on the lease liabilities. Previously, the Bank recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised.

### **Transition**

The Bank applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore no adjustment to the opening balance of retained earnings at 1 January 2019 was recognised, with no restatement of comparative information. The Bank applied the practical expedient to grandfather the definition of lease on transition. This means that it applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

### **l) Assets Held for Sale**

Assets held for sale are non-current assets held to sale for which the carrying amount will be realized through a sale transaction, rather than by using them. These are assets held for sale in their present condition and a sale is considered highly probable. Assets classified as non-current assets held for sale are reported at the lower of acquisition cost less accumulated depreciation and provisions or at fair value less costs related to sale.

### **m) Income Tax**

Current income tax is calculated on the tax base reported in accordance with Slovak tax legislation. The tax basis differs from accounting profit/(loss) recognized in the statement of comprehensive income, as it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The current tax liability is calculated using the tax rates valid as of the reporting date.

Deferred income tax is reported, using the balance sheet method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rate enacted for future periods was used to determine deferred income tax, ie 21%.

A deferred tax liability related to taxable temporary differences represents tax to be paid in future taxation periods. A deferred tax asset is related to deductible temporary differences, the possibility to carry forward the tax loss, and the possibility to transfer unused tax deductions and other tax claims to future periods. Deferred tax liabilities are recognised generally for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

When recognising deferred tax assets and deferred tax liabilities, the Bank applies an approach under which deferred tax assets are recognised to the extent that it is probable that conditions for the tax deduction of temporary differences in the future are met and that taxable profits will be available against which such tax assets can be utilised. Given that the amount of future taxable profits cannot be reliably estimated, the Bank does not recognise the deferred tax asset in full.

Deferred tax is recognised in the income statement, except where the deferred tax relates to items not recognised as income or expense, but charged and recognised in equity. In such cases, the related deferred tax is debited or credited to equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to the income tax assessed by the same tax authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

The Bank recognises current corporate income tax and deferred tax in the statement of financial position under "*Tax assets*" or "*Tax liabilities*".

**n) Debt Securities**

Debt securities issued by the Bank are stated at amortised cost using the effective interest rate method. The Bank issues mortgage debentures. Interest expense arising on the issue of securities is included in the statement of comprehensive income line *"Interest and similar expenses"*.

**o) Subordinated Debt**

Subordinated debt refers to the Bank's external funds and, in the event of bankruptcy, composition or the liquidation of the Bank, the entitlement to its repayment is subordinated to liabilities to other creditors. The Bank's subordinated debt is recognised in the separate statement of financial position as *"Subordinated debt"*. Interest expense paid on the received subordinated debt is recognised through the statement of comprehensive income in *"Interest and similar expenses"*.

**p) Accrued Interest**

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

**q) Provisions for Liabilities**

The amount of provisions for liabilities and charges is recognised as an expense and a liability when the Bank has legal or constructive obligations as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation and a reasonable estimate of the amount of the resulting loss can be made. Any loss resulting from the recognition of a provision for liability is recognised in the statement of comprehensive income for the period.

**r) Earnings per Share**

The Bank discloses earnings per share attributable to holders of ordinary shares. The Bank calculated earnings per ordinary share as profits attributable to holders of ordinary shares divided by the weighted average number of ordinary shares outstanding during the period. The profit attributable to each class of shares is determined based on the face value of each class of shares in relation to the percentage of the total face value of all shares.

**s) Interest Income and Interest Expense**

Interest income and expense, and interest related charges arising on all interest-bearing instruments are accrued in the statement of comprehensive income using the effective interest rate method. Interest income (expense) from securities includes revenues from coupons with fixed and floating rates, and amortised discount or premium. Interest on impaired receivables (retail exposures are assessed based on the number of days overdue; other exposures are assessed on an individual basis) is reclassified by the Bank in the off-balance sheet accounts.

**t) Fees and Commissions**

Fees and commissions received and paid are recognised in the statement of comprehensive income as *"Net interest income"* on an accrual basis, eg fees related to the provision of loans, brokerage commissions (are accrued over the term of the respective loan). Other fees and commissions received and paid, eg fees for account management, payment system fees, etc are recognised in the statement of comprehensive income under *"Net fee and commission income"*.

#### **4. Significant Accounting Estimates**

Presenting the financial statements in compliance with IFRS requires estimates and assumptions to be prepared that affect the reported amounts of assets and liabilities and estimated assets and liabilities as at the reporting date as well as disclosed expenses and revenues for the relevant reporting period. The effect of the change in accounting estimates is included, on a prospective basis, in the profit/loss of the period in which the estimate is changed provided that the changes only affect the given period, or also in the profit/loss of the subsequent periods if the change has an impact on the following periods. The estimates relate to: fair values of financial instruments, provisions for loans to customers and provisions for litigations.

##### **Fair Value of Financial Instruments**

If it is not possible to determine the fair value of financial assets and financial liabilities recognized in the statement of financial position from active markets, fair value is determined using by different valuation techniques including mathematical and statistical models. The inputs for these models are taken from observable recognised markets, but if this is not possible, the determination of fair value requires estimates. The estimates include considerations of liquidity and model inputs, eg current interest rates, exchange rates and credit spreads.

##### **Provisions for Loans to Customers**

As discussed in the paragraphs of Chapter 3 above, and as described in detail in Notes 1 and 23, Chapter 5 to the financial statements, the Bank recognises a provision for expected credit losses from financial instruments that are carried at amortised cost or fair value through OCI and identified contingent liabilities. The calculation of provisions is based on anticipated estimated cash flows, which are determined using different scenarios, taking into account the time value of money, supportable and reasonable information about past events and estimated future economic conditions.

The recognition of provisions for loan losses and identified contingent liabilities, however, includes various uncertainties regarding the outcome of the above risks (eg for portfolios measured using statistical models, the Bank does not have sufficiently representative historical data available and, therefore, the Bank has elected to use NBS estimates to estimate the impact of an adverse scenario, and requires Bank management to make many subjective judgments when estimating losses. Therefore, the result of such estimates may differ from the provisions recognised as at 31 December 2019.

##### **Deferred Tax Asset**

The utilization of a deferred tax asset depends on the generation of sufficient future taxable profits. Moreover, rules and regulations have undergone significant changes in recent years; there are few historical precedents or interpretative rulings on a number of complex issues affecting the banking industry. In addition, the tax authorities have broad powers when interpreting the application of the tax laws and regulations when examining taxpayers. Accordingly, there is a high degree of uncertainty about the ultimate outcome of examinations by the tax authorities.

##### **Provision for Litigation Claims**

The amounts recognised as provisions for liabilities are based on the Bank's management's judgement and represent the best estimate of the expenses required to settle a liability with uncertain timing and an uncertain amount payable.

Future events and their effects cannot be determined with absolute certainty. Accordingly, accounting estimates require judgement and the estimates that are used in the preparation of the financial statements are changed when new events occur or new information and experience are available, or when the business environment in which the Bank operates changes. Results may differ from these estimates, and the impact can be significant.

## 5. Notes to the Financial Statements

### 1. Financial Assets at Amortised Cost

31.12.2019	Gross Carrying Amount	Stage 1	Stage 2	Stage 3
<b>Financial assets at amortised cost, of which:</b>				
<b>Balances with central banks</b>	<b>349 638</b>	349 638	<b>0</b>	<b>0</b>
Current accounts	28 748	28 748	0	0
Compulsory minimum reserves	320 890	320 890	0	0
<b>Due from banks</b>	<b>3 851</b>	<b>3 851</b>	<b>0</b>	<b>0</b>
<b>Loans and advances to customers*, of which:</b>	<b>3 587 711</b>	<b>3 418 389</b>	<b>61 067</b>	<b>108 255</b>
Public administration	143 156	141 887	209	1 060
Retail clients	2 963 087	2 902 695	18 535	41 857
of which: Individuals	2 839 671	2 783 038	18 417	38 216
Other clients	481 468	373 807	42 323	65 338
<b>Debt securities, of which:</b>	<b>233 177</b>	<b>213 097</b>	<b>20 080</b>	<b>0</b>
Banks	16 023	16 023	0	0
Public administration	197 074	197 074	0	0
Other clients	20 080	0	20 080	0
<b>Total</b>	<b>4 174 477</b>	<b>3 984 975</b>	<b>81 147</b>	<b>108 255</b>
Provisions- Loans and advances to customers	(149 874)	(39 851)	(12 596)	(97 427)
Provisions- Debt securities	(2 113)	0	(2 113)	0
<b>Net carrying amount</b>	<b>4 022 390</b>	<b>3 945 124</b>	<b>66 438</b>	<b>10 828</b>

31.12.2018	Gross Carrying Amount	Stage 1	Stage 2	Stage 3
<b>Financial assets at amortised cost, of which:</b>				
<b>Balances with central banks</b>	<b>97 006</b>	<b>97 006</b>	<b>0</b>	<b>0</b>
Current accounts	18 508	18 508	0	0
Compulsory minimum reserves	78 498	78 498	0	0
<b>Due from banks</b>	<b>7 095</b>	<b>7 095</b>	<b>0</b>	<b>0</b>
<b>Loans and advances to customers*, of which:</b>	<b>3 227 325</b>	<b>2 958 050</b>	<b>128 596</b>	<b>140 679</b>
Public administration	141 661	140 468	0	1 193
Retail clients	2 553 690	2 488 486	16 005	49 199
of which: Individuals	2 414 540	2 353 191	16 005	45 344
Other clients	531 974	329 096	112 591	90 287
<b>Debt securities, of which:</b>	<b>307 657</b>	<b>287 577</b>	<b>20 080</b>	<b>0</b>
Banks	16 019	16 019	0	0
Public administration	271 558	271 558	0	0
Other clients	20 080	0	20 080	0
<b>Total</b>	<b>3 639 083</b>	<b>3 349 728</b>	<b>148 676</b>	<b>140 679</b>
Provisions- Loans and advances to customers	(172 836)	(29 385)	(18 068)	(125 383)
Provisions- Debt securities	(2 008)	0	(2 008)	0
<b>Net carrying amount</b>	<b>3 464 239</b>	<b>3 320 343</b>	<b>128 600</b>	<b>15 296</b>

\*The Bank classifies clients into sectors pursuant to Regulation (EU) No 549/2013 of the European Parliament and of the Council on the European system of national and regional accounts in the European Union, "ESA 2010", where "Public Administration" is sector S.13, "Retail Clients" is sectors S.14 and S.15, and other clients are sectors S.11 and S.12, except for central and other banks.

Compulsory reserves with the NBS represent minimum compulsory reserves the Bank is obliged to maintain in cash with the NBS. The system of creating and maintaining minimum reserves is regulated by European Community and European Central Bank regulations. The Bank's ability to withdraw the reserve is restricted by applicable legislation.



## Provisions for financial assets at amortized cost

### Provisions for loans and advances to customers

Provisions for loans and advances to customers	1.1.2019	An increase due to the creation or acquisition	Decline due to discontinuation of reporting	Net changes due to change in credit risk	Transfers between levels	Other movements*	Exchange rate differences	Decrease in provision due to depreciation	31.12.2019
<b>Stage 1</b>	<b>(29 385)</b>	<b>(12 309)</b>	<b>3 941</b>	<b>(9 347)</b>	<b>7 150</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>(39 851)</b>
Public administration	(10)	0	3	1	0	0	0	0	(7)
Retail clients	(24 475)	(10 801)	3 124	(5 103)	5 837	0	0	0	(31 418)
Other clients	(4 900)	(1 509)	814	(4 224)	1 313	100	0	0	(8 427)
<b>Stage 2</b>	<b>(18 068)</b>	<b>(538)</b>	<b>5 542</b>	<b>1 116</b>	<b>(649)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(12 596)</b>
Public administration	0	0	0	0	0	0	0	0	0
Retail clients	(4 158)	(476)	364	(87)	(297)	0	0	0	(4 480)
Other clients	(13 910)	(62)	5 178	1 029	(352)	0	0	0	(8 117)
<b>Stage 3</b>	<b>(125 383)</b>	<b>(2 499)</b>	<b>5 250</b>	<b>3 658</b>	<b>(6 501)</b>	<b>2 672</b>	<b>0</b>	<b>25 375</b>	<b>(97 427)</b>
Public administration	(805)	(26)	0	94	0	0	0	0	(737)
Retail clients	(40 643)	(1 408)	3 831	1 319	(5 540)	0	0	8 892	(33 550)
Other clients	(83 935)	(1 065)	1 419	2 246	(961)	2 672	0	16 483	(63 141)
<b>Total</b>	<b>(172 836)</b>	<b>(15 345)</b>	<b>14 733</b>	<b>(4 647)</b>	<b>0</b>	<b>2 772</b>	<b>0</b>	<b>25 375</b>	<b>(149 874)</b>

\*The Bank classified other financial assets (derivatives, cash collateral, others assets) in a total amount of € 12 412 thousand and related provisions in a total amount of € 2 772 thousand from "Loans and Advances to Customers" to "Others assets" as at 30 Jun 2019.

Provisions for loans and advances to customers	1.1.2018	(Creation)/Reversal	Use	Exchange rate differences	31.12.2018
<b>Stage 1</b>	<b>(22 818)</b>	<b>(6 567)</b>	<b>0</b>	<b>0</b>	<b>(29 385)</b>
Public administration	(23)	13	0	0	(10)
Retail clients	(16 092)	(8 383)	0	0	(24 475)
Other clients	(6 703)	1 803	0	0	(4 900)
<b>Stage 2</b>	<b>(8 735)</b>	<b>(9 333)</b>	<b>0</b>	<b>0</b>	<b>(18 068)</b>
Public administration	0	0	0	0	0
Retail clients	(2 831)	(1 327)	0	0	(4 158)
Other clients	(5 904)	(8 006)	0	0	(13 910)
<b>Stage 3</b>	<b>(171 350)</b>	<b>12 110</b>	<b>33 857</b>	<b>(1)</b>	<b>(125 383)</b>
Public administration	(704)	(101)	0	0	(805)
Retail clients	(52 885)	781	11 461	(1)	(40 643)
Other clients	(117 761)	11 430	22 396	0	(83 935)
<b>Total</b>	<b>(203 379)</b>	<b>(5 322)</b>	<b>33 857</b>	<b>(1)</b>	<b>(172 836)</b>

### Debt securities

Debt securities	1.1.2019	An increase due to the creation or acquisition	Decline due to discontinuation of reporting	Net changes due to change in credit risk	Transfers between levels	Decrease in provision due to depreciation	31.12.2019
Stage 1	0	0	0	0	0	0	0
Stage 2	(2 008)	0	0	(105)	0	0	(2 113)
Stage 3	0	0	0	0	0	0	0
<b>Total</b>	<b>(2 008)</b>	<b>0</b>	<b>0</b>	<b>(105)</b>	<b>0</b>	<b>0</b>	<b>(2 113)</b>

Debt Securities	1.1.2018	An increase due to the creation or acquisit	Decline due to discontinuation of reporting	Net changes due to change in credit risk	Transfers between levels	Decrease in provision due to depreciation	31.12.2018
Stage 1	(476)	0	0	0	476	0	0
Stage 2	0	0	0	(1 532)	(476)	0	(2 008)
Stage 3	0	0	0	0	0	0	0
<b>Total</b>	<b>(476)</b>	<b>0</b>	<b>0</b>	<b>(1 532)</b>	<b>0</b>	<b>0</b>	<b>(2 008)</b>

**Gross book value transfers between levels**

Provisions for loans and advances to customers	Move to level 1	Move to level 2	Move to level 3
<b>Stage 1</b>	<b>4 685</b>	<b>(13 955)</b>	<b>(5 745)</b>
Public administration	0	0	0
Retail clients	4 428	(11 185)	(4 944)
Other clients	257	(2 770)	(801)
<b>Stage 2</b>	<b>(4 399)</b>	<b>14 209</b>	<b>(3 537)</b>
Public administration	0	0	0
Retail clients	(4 142)	11 209	(3 204)
Other clients	(257)	3 000	(332)
<b>Stage 3</b>	<b>(286)</b>	<b>(254)</b>	<b>9 282</b>
Public administration	0	0	0
Retail clients	(286)	(24)	8 148
Other clients	0	(230)	1 134

The following summary shows the financial assets at amortised cost in the net carrying amount by geographical territory:

	31.12.2019	31.12.2018
<b>Balances with central banks</b>	<b>349 638</b>	<b>97 006</b>
Slovak Republic	349 638	97 006
<b>Due from banks</b>	<b>3 851</b>	<b>7 095</b>
Slovak Republic	5	6
EU Member States	2 828	5 288
Other countries	1 018	1 801
<b>Loans and advances to customers</b>	<b>3 437 837</b>	<b>3 054 489</b>
Slovak Republic	3 255 193	2 888 631
EU Member States	182 576	157 678
Other countries	67	8 180
<b>Debt securities</b>	<b>231 064</b>	<b>305 649</b>
Slovak Republic	165 287	221 155
EU Member States	65 777	84 494
<b>Total</b>	<b>4 022 390</b>	<b>3 464 239</b>

The following summary shows the financial assets at amortised cost in the net carrying amount by currencies:

	31.12.2019	31.12.2018
<b>Balances with central banks</b>	<b>349 638</b>	<b>97 006</b>
In euro	349 638	97 006
<b>Due from banks</b>	<b>3 851</b>	<b>7 095</b>
In euro	1 301	2 693
In foreign currencies	2 550	4 402
<b>Loans and advances to customers</b>	<b>3 437 837</b>	<b>3 054 489</b>
In euro	3 437 835	3 046 363
In foreign currencies	2	8 126
<b>Debt securities</b>	<b>231 064</b>	<b>305 649</b>
In euro	227 273	301 863
In foreign currencies	3 791	3 786
<b>Total</b>	<b>4 022 390</b>	<b>3 464 239</b>

The summary of the financial assets at amortised cost by residual maturity is presented in Note 28 2c).

## 2. Financial Derivatives - assets

	31.12.2019		31.12.2018	
	Fair Value	Nominal Value	Fair Value	Nominal Value
<b>Hodnota aktív</b>				
<b>Financial assets held for trading – derivatives</b>				
Currency derivatives	103	11 960	52	10 149
<b>Total</b>	<b>103</b>	<b>11 960</b>	<b>52</b>	<b>10 149</b>
<b>Hedging derivatives</b>				
Interest rate swap	0	0	0	8 441
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8 441</b>

The residual maturity of derivatives at nominal value is presented in Note 25.

## 3. Financial Assets at Fair Value through Other Comprehensive Income

Name	Equity share at 31.12.2019			Equity share at 31.12.2018		
	(%)	Nominal Value	Fair Value	(%)	Nominal Value	Fair Value
SWIFT LA HULPE, Belgium	0,000	16	16	0,000	16	16
Visa Inc., USA	0,000	3 084	3 084	0,000	2 125	2 125
<b>Total</b>	<b>x</b>	<b>3 100</b>	<b>3 100</b>	<b>x</b>	<b>2 141</b>	<b>2 141</b>

In its portfolio of financial assets at fair value through other comprehensive income, the Bank records equity securities – equity shares and other shares in a total amount of € 3 100 thousand, which are capital participations in SWIFT LA HULPE, Belgium and VISA Inc. USA.

#### 4. Non-current Tangible Assets

Movements in non-current tangible assets as at 31 December 2019:

	1.1.2019	Increase	Decrease	Other movements	31.12.2019
Land, buildings and structures	45 541	9 587	(891)	(8 518)	45 718
Information technologies	11 128	1 318	(404)	(1 231)	10 811
Other non-current tangible assets	20 012	1 177	(1 869)	0	19 320
Leasing (IFRS 16)	5	0	0	9 750	9 755
<b>Non-current tangible assets</b>	<b>76 686</b>	<b>12 082</b>	<b>(3 164)</b>	<b>0</b>	<b>85 604</b>
Accumulated depreciation and provisions - buildings and structures	(32 836)	(3 784)	465	1 874	(34 281)
Accumulated depreciation – information technologies	(10 489)	(526)	400	210	(10 405)
Accumulated depreciation - other non-current tangible assets	(18 944)	(1 095)	1 822	0	(18 216)
Accumulated depreciation - Leasing (IFRS 16)	(5)	0		(2 084)	(2 089)
<b>Accumulated depreciation and provisions</b>	<b>(62 274)</b>	<b>(5 405)</b>	<b>2 688</b>	<b>0</b>	<b>(64 991)</b>
<b>Net book value</b>	<b>14 412</b>	<b>6 677</b>	<b>(477)</b>	<b>0</b>	<b>20 613</b>

Movements in non-current tangible assets as at 31 December 2018:

	1.1.2018	Increase	Decrease	Other movements	31.12.2018
Land, buildings and structures	59 075	11 140	(24 674)*	0	45 541
Information technologies	12 534	13	(1 419)	0	11 128
Other non-current tangible assets	26 335	2 575	(8 898)	0	20 012
Leasing (IFRS 16)	5	0	0	0	5
<b>Non-current tangible assets</b>	<b>97 949</b>	<b>13 728</b>	<b>(34 991)</b>	<b>0</b>	<b>76 686</b>
Accumulated depreciation and provisions - buildings and structures	(40 692)	(9 920)	17 776	0	(32 836)
Accumulated depreciation – information technologies	(11 527)	(378)	1 416	0	(10 489)
Accumulated depreciation - other non-current t tangible assets	(24 455)	(3 134)	8 645	0	(18 944)
Accumulated depreciation - Leasing (IFRS 16)	(5)	0	0	0	(5)
<b>Accumulated depreciation and provisions</b>	<b>(76 679)</b>	<b>(13 432)</b>	<b>27 837</b>	<b>0</b>	<b>(62 274)</b>
<b>Net book value</b>	<b>21 270</b>	<b>296</b>	<b>(7 154)</b>	<b>0</b>	<b>14 412</b>

\*A major portion of the disposals is caused by the disposal of immovable assets through their sale.

#### Obligations from Contracts for Purchase of Non-current Tangible Assets

As at 31 December 2019, Prima banka did not record any obligations from contracts for the purchase of non-current tangible assets (31 December 2018: € 0).

#### Insurance Coverage

A set of immovable assets has insurance coverage of up to € 56 970 thousand and a set of movable assets with insurance coverage of up to € 39 479 thousand. The insurance covers damage caused by natural disaster, fire, theft and vandalism, flooding from water mains, falls, crashes, etc..

#### 5. Non-Current Intangible Assets

Movements in non-current intangible assets as at 31 december 2019:

	1.1.2019	Increase	Decrease	31.12.2019
Software	19 925	(746)	0	19 179
Other non-current intangible assets	23 262	1 214	(27)	24 449
<b>Non-current intangible assets</b>	<b>43 187</b>	<b>468</b>	<b>(27)</b>	<b>43 628</b>
Accumulated amortisation - software	(19 716)	(180)	950	(18 946)
Accumulated amortisation - other non-current intangible assets	(21 577)	(1 239)	27	(22 789)
<b>Accumulated amortisation and provisions</b>	<b>(41 293)</b>	<b>(1 419)</b>	<b>977</b>	<b>(41 735)</b>
<b>Net book value</b>	<b>1 894</b>	<b>(951)</b>	<b>950</b>	<b>1 893</b>

## Movements in non-current intangible assets as at 31 December 2018:

	1.1.2018	Increase	Decrease	31.12.2018
Software	27 001	1 071	(8 147)	19 925
Other non-current intangible assets	25 810	1 561	(4 109)	23 262
<b>Non-current intangible assets</b>	<b>52 811</b>	<b>2 632</b>	<b>(12 256)</b>	<b>43 187</b>
Accumulated amortisation - software	(26 263)	(2 048)	8 595	(19 716)
Accumulated amortisation - other non-current intangible assets	(25 386)	(258)	4 067	(21 577)
<b>Accumulated amortisation and provisions</b>	<b>(51 649)</b>	<b>(2 306)</b>	<b>12 662</b>	<b>(41 293)</b>
<b>Net book value</b>	<b>1 162</b>	<b>326</b>	<b>406</b>	<b>1 894</b>

**Insurance Coverage**

Computer technology is insured up to the maximum amount of € 1 000 thousand. The relevant insurance covers electronic computer programs, data, and electronic media, and computer systems. The coverage is for damage caused by fraudulent modification of programs, data, and their destruction, etc.

As at 31 December 2019, Prima banka did not record any liabilities under agreements to purchase non-current intangible assets (31 December 2018: € 0).

**6. Deferred Tax Assets**

	31.12.2019	31.12.2018
Deferred tax asset	9 432	9 570
<b>Total</b>	<b>9 432</b>	<b>9 570</b>

**7. Other Assets**

	31.12.2019	31.12.2018
Assets, of which:	18 074	7 487
Amounts due from assigned receivables	6 755	5 331
Receivables from clients' derivatives	2 705	0
Cash collateral	8 613	0
Others receivables	0	2 156
Other assets	7 820	5 820
<b>Total</b>	<b>25 894</b>	<b>13 307</b>
Provisions	(3 755)	(1 319)
<b>Net carrying amount</b>	<b>22 139</b>	<b>11 988</b>

The Bank classified other financial assets (derivatives, cash collateral and others assets) in a total amount of € 12 412 thousand and related provisions in a total amount of € 2 769 thousand from "Loans and Advances to Customers" to "Others assets" as at 30 Jun 2019.

**8. Financial Liabilities at Amortised Cost**

	31.12.2019	31.12.2018
<b>Balances with central banks</b>	<b>0</b>	<b>100 000</b>
Loans received	0	100 000
<b>Due from banks</b>	<b>21 341</b>	<b>30 517</b>
Current accounts and demand payables	1 300	1 644
Term deposits	20 041	28 873
<b>Customer deposits</b>	<b>3 251 476</b>	<b>3 087 787</b>
Current accounts	1 770 225	1 646 923
Term deposits	1 376 578	1 323 113
Saving deposits	104 343	116 943
Received loans	330	808
<b>Debt securities</b>	<b>503 964</b>	<b>1 967</b>
Mortgage debentures	1 908	1 967
Covered bonds	502 056	0
<b>Total</b>	<b>3 776 781</b>	<b>3 220 271</b>

As at 31 December 2019, the Bank pledged government bonds held in the portfolio of financial assets at amortised cost in favour of the NBS for pooling in the amount of € 200 900 thousand (31 December 2018: € 222 985 thousand).

As at 31 December 2019, the Bank recognises long-term loans received from customers falling due in 2025.

The following summary shows the financial liabilities at amortised cost by customers:

	31.12.2019	31.12.2018
Public administration	391 550	306 341
Retail clients, of which:	2 555 777	2 409 824
Individuals	2 360 414	2 196 065
Other clients	304 149	371 622
<b>Total</b>	<b>3 251 476</b>	<b>3 087 787</b>

The following summary shows the financial liabilities at amortised cost by geographical territory:

	31.12.2019	31.12.2018
<b>Balances with central banks</b>	<b>0</b>	<b>100 000</b>
Slovak Republic	0	100 000
<b>Due from banks</b>	<b>21 341</b>	<b>30 517</b>
Slovak Republic	20 339	29 515
EU Member States	1 002	1 002
<b>Customer deposits</b>	<b>3 251 476</b>	<b>3 087 787</b>
Slovak Republic	3 230 443	3 045 581
EU Member States	15 555	37 696
Other countries	5 478	4 510
<b>Debt securities</b>	<b>503 964</b>	<b>1 967</b>
Slovak Republic	503 964	1 967
<b>Total</b>	<b>3 776 781</b>	<b>3 220 271</b>

The following summary shows the financial liabilities at amortised cost by currencies:

	31.12.2019	31.12.2018
<b>Balances with central banks</b>	<b>0</b>	<b>100 000</b>
In euro	0	100 000
<b>Due from banks</b>	<b>21 341</b>	<b>30 517</b>
In euro	21 204	30 041
In foreign currency	137	476
<b>Customer deposits</b>	<b>3 251 476</b>	<b>3 087 787</b>
In euro	3 247 898	3 081 335
In foreign currency	3 578	6 452
<b>Debt securities</b>	<b>503 964</b>	<b>1 967</b>
In euro	503 964	1 967
<b>Total</b>	<b>3 776 781</b>	<b>3 220 271</b>

As at 31 December 2019, Prima banka issued the securities summarised in the following table (these issued securities are not placed on a regulated market):

ISIN	Date of issue	Maturity date	Frequency of yield payment	Interest rate	Nominal value (€)	Number of securities issued	Carrying amount
SK4120007998	1.12.2011	1.12.2021	-	ZERO	1 000.00	1 465	1 890
SK4000016069	1.10.2019	1.10.2026	annually	0.01 %	100 000.00	5 000	502 056
<b>Total</b>							<b>503 946</b>



As at 31 December 2018, Prima banka issued the securities summarized in the following table (these securities issued are not placed on a regulated market):

ISIN	Date of issue	Maturity date	Frequency of yield payment	Interest rate	Nominal value (€)	Number of securities issued	Carrying amount
SK4120007998	1.12.2011	1.12.2021	-	ZERO	1 000.00	1 560	1 967
<b>Total</b>							<b>1 967</b>

Prima banka's issued mortgage debentures are registered book-entry securities. The bonds are readily transferrable with no pre-emption or conversion right attached thereto.

## 9. Liabilities from leases

	31.12.2019	31.12.2018
Liabilities from leases	7 711	0
<b>Total</b>	<b>7 711</b>	<b>0</b>

## 10. Financial Derivatives - Liabilities

Amount of liabilities	31.12.2019		31.12.2018	
	Value	Nominal Value	Value	Nominal Value
<b>Financial liabilities Held for Trading- derivatives</b>				
Currency derivatives	0	11 880	0	10 123
	<b>0</b>	<b>11 880</b>	<b>0</b>	<b>10 123</b>
<b>Hedging derivatives</b>				
Interest rate	0	0	427	8 441
<b>Celkom</b>	<b>0</b>	<b>0</b>	<b>427</b>	<b>8 441</b>

The residual maturity of the derivatives at nominal value is presented in Note 25.

## 11. Provisions and Reserves

	31.12.2019	31.12.2018
Provisions for litigation	10 131	10 173
Provisions for restructuring	952	1 430
Provisions for off-balance sheet liabilities	3 553	4 339
Other reserves	155	0
<b>Total</b>	<b>14 791</b>	<b>15 942</b>

The Bank expects the remaining provision for restructuring to be used in 2020. Provisions for litigation will be used after definitive closing of individual litigations, however, the final date is difficult to predict. Provisions for off-balance sheet liabilities are continuously updated based on the settlement of the obligations.

Movements in provisions for liabilities as at 31 December 2019:

	1.1.2019	Allocation	Release	Use	31.12.2019
Provisions for litigation	10 173	35	(66)	(11)	10 131
Provisions for restructuring	1 430	0	(478)	0	952
Provision for off-balance sheet liabilities	4 339	6 143	(6 929)	0	3 553
Other reserves (executions)	0	155	0	0	155
<b>Total</b>	<b>15 942</b>	<b>6 333</b>	<b>(7 473)</b>	<b>(11)</b>	<b>14 791</b>

## Movements in provisions for liabilities as at 31 December 2018:

	1.1.2018	Allocation	Release	Use	31.12.2018
Provisions for litigation	10 323	253	(203)	(200)	10 173
Provisions for restructuring	2 885	70	(1 525)	0	1 430
Provision for off-balance sheet liabilities	3 250	8 033	(6 944)	0	4 339
Other reserves (for retirement payments)	356	0	(356)	0	0
<b>Total</b>	<b>16 814</b>	<b>8 356</b>	<b>(9 028)</b>	<b>(200)</b>	<b>15 942</b>

**Provisions for Litigation**

In the ordinary course of business, the Bank is subject to legal actions and complaints. Each dispute is subject to special monitoring and a regular re-assessment as part of the Bank's standard procedures. If it is probable that the Bank will be required to settle a claim and a reliable estimate of the amount can be made, provisions are recorded. The Bank will release the recorded provisions in the event of a final resolution of a dispute that was decided in the Bank's favour. The total provision for litigation amounts to € 10 131 thousand as at 31 December 2019, and represents principal and default interest (31 December 2018: € 10 173 thousand).

**Provisions for Off-Balance Sheet Liabilities**

The Bank recognises provisions for off-balance sheet loan commitments, granted guarantees, and contingent liabilities. The provisions are assessed by the Bank similarly to loans to customers, reflecting the existing financial situation and activities of the entity to which the Bank granted a guarantee or a loan commitment, and the value of received collateral.

**12. Other Liabilities**

	31.12.2019	31.12.2018
Accruals and deferrals	81	84
Reserves and other payables	15 529	15 612
Settlement with employees, of which: social fund	923 60	897 60
Other payables	16 456	19 543
State budget clearing account	425	497
<b>Total</b>	<b>33 414</b>	<b>36 633</b>

Reserves and other payables mainly comprise a provision for employee bonuses, a provision for unused vacation days and a provision for unbilled supplies of goods and services. Other liabilities mainly comprise the settlement of clearing collections and payments.

**Social Fund**

Prima banka has created the social fund as required by the Social Fund Act, the Income Tax Act. The social fund is used by Prima banka to finance its own social policy. The social fund is created during the year (if a profit is generated and tax and social security payments fulfilled) by a compulsory allocation at 0,6% of gross wages effectively paid to employees in the current year. For tax purposes, the allocations to the social fund are included in the expenses to generate, ensure and sustain taxable income. Social policy financing represents short-term employee benefits, which are recognized and disclosed as expenses of the current year.

The creation and use of the social fund as at 31 December 2019 and as at 31 December 2018 is presented in the following table:

Social fund	31.12.2019	31.12.2018
Balance as at 1.1.	60	70
Allocation (from expenses)	156	153
Usage: catering allowance	(156)	(163)
<b>Total</b>	<b>60</b>	<b>60</b>

### 13. Equity

	31.12.2019	31.12.2018
Share capital	226 773	226 773
Share premium funds	71 190	71 190
Legal reserve fund	6 439	4 237
Other capital funds	54 078	54 078
Accumulated other comprehensive income	1 349	(839)
Profit/(loss) from previous years	(30 868)	(50 679)
Profit/(loss) for the current year	17 060	22 013
<b>Total</b>	<b>346 021</b>	<b>326 773</b>

#### Share Capital

Face value of shares	31.12.2019		31.12.2018	
	No. of shares	in € '000	No. of shares	in € '000
Number of issued shares with face value of € 399	100 200	39 980	100 200	39 980
Number of issued shares with face value of € 67	100 200	6 713	100 200	6 713
Number of issued shares with face value of € 5	701 400	3 507	701 400	3 507
Number of issued shares with face value of € 1	176 572 738	176 573	176 572 738	176 573
	<b>177 474 538</b>	<b>226 773</b>	<b>177 474 538</b>	<b>226 773</b>

#### Accumulated Other Comprehensive Income

	31.12.2019	31.12.2018
Financial assets at fair value through other comprehensive income	2 291	1 121
Available-for-sale securities	(1 045)	(2 237)
Cash flow hedge	103	277
<b>Total</b>	<b>1 349</b>	<b>(839)</b>

Accumulated other comprehensive income includes unrealised remeasurement of financial assets at fair value through other comprehensive income without an effect on deferred tax. In accumulated other comprehensive income, the Bank also recognises the revaluation amount from the transfer of securities from the available-for-sale financial assets portfolio to the held-to-maturity financial assets portfolio pursuant to IAS 39. The aforementioned reserve is gradually amortised in the statement of comprehensive income until the maturity of the transferred securities.

Accumulated other comprehensive income also includes gains/(losses) on revaluation of the instrument used by Prima banka to hedge against the variability of cash flows for granted long-term loans until June 2011.

#### Proposed Distribution of Profit for 2019:

Statutory allotment to the reserve fund (10% of the profit after tax)	1 706
Transfer of profit into profit/loss from previous years	15 354
<b>Retained earnings for 2019</b>	<b>17 060</b>

The distribution of the 2019 profit was approved by the General Meeting of Prima banka.

**14. Net Interest Margin**

	31.12.2019	31.12.2018
<b>Interest income and similar income on:</b>	<b>75 420</b>	<b>82 513</b>
Financial assets at amortised cost, of which:		
Balances with the central banks	(564)	(495)
Due from banks	23	(8)
Loans and advances to customers	69 684	75 558
Debt securities	6 286	7 519
Financial assets held for trading – derivatives	0	(2)
Hedging derivatives	(9)	(59)
<b>Interest expense and similar expense for:</b>	<b>(15 690)</b>	<b>(17 226)</b>
Financial liabilities at amortised cost, of which:		
Due to banks	(202)	(181)
Customer deposits	(15 286)	(16 508)
Debt securities	(154)	(240)
Financial liabilities held for trading – derivatives	0	(10)
Hedging derivatives	(48)	(287)
<b>Net Interest Margin</b>	<b>59 730</b>	<b>65 287</b>

**15. Net Fee and Commission Income**

	31.12.2019	31.12.2018
<b>Fee and commission income on:</b>	<b>28 465</b>	<b>27 763</b>
Payment services	22 587	21 362
Credit activity	4 232	4 653
Transactions with securities	113	116
Other banking services	1 533	1 632
<b>Fee and commission expense for:</b>	<b>(6 102)</b>	<b>(5 467)</b>
Payment services	(1 195)	(1 620)
Credit activity	(2)	(3)
Transactions with securities	(123)	(72)
Other banking services	(4 782)	(3 772)
<b>Net Fee and Commission Income</b>	<b>22 363</b>	<b>22 296</b>

**16. Profit from Financial Transactions**

	31.12.2019	31.12.2018
Net income (loss) from financial assets held for trading – derivatives	(415)	(447)
Net loss from revaluation of financial assets at fair value through other comprehensive income	(227)	(210)
Net income (loss) from hedging derivatives	12	30
Foreign exchange differences	709	1 116
<b>Net profit from financial transactions</b>	<b>79</b>	<b>489</b>

**17. Other Operating Income (Loss)**

	31.12.2019	31.12.2018
Net income (loss) on the sale of non-current assets	(41)	1 805
Lease income	79	102
Other income from non-banking activities	44	516
Other expenses from non-banking activities	(1)	(157)
<b>Other operating income</b>	<b>81</b>	<b>2 266</b>

## 18. Specific Contributions of Selected Financial Institutions

	31.12.2019	31.12.2018
Deposits Protection Fund	(265)	(283)
Special levy of banking institutions	(6 728)	(6 446)
Resolution fund	(725)	(46)
Supervision of Central Banks	(445)	(242)
<b>Specific Contributions of Selected Financial Institutions</b>	<b>(8 163)</b>	<b>(7 017)</b>

The Bank is legally obliged to make a contribution to the Deposit Protection Fund. The annual contribution was determined by the Deposit Protection Fund.

As of 1 January 2012, Act No. 384/2011 Coll. on the Special Levy on Selected Financial Institutions came into effect. The levy calculation is based on the amount of the Bank's liabilities less the amount of equity and subordinated debt. Data as at the last date of the preceding calendar quarter were used to determine the base for calculating the levy for the relevant calendar quarter.

In addition, pursuant to Act No. 371/2014 Coll., the Bank makes contributions to the national resolution fund, which was established as one of the fundamental elements of the mechanism for the resolution of crisis situations in the financial sector. Contributions to the fund are calculated using the methodology set out in the European Commission's regulations, taking into account the size and risk profile of the financial institution.

## 19. General and Administrative Expenses

	31.12.2019	31.12.2018
<b>Personnel expenses</b>	<b>(24 990)</b>	<b>(24 144)</b>
Wages and salaries*	(18 450)	(17 243)
Social expenses	(5 927)	(6 099)
Other personnel costs	(613)	(802)
<b>Depreciation</b>	<b>(4 776)</b>	<b>(3 852)</b>
Depreciation of non-current tangible assets	(4 335)	(2 982)
Amortisation of non-current intangible assets	(441)	(870)
<b>Purchased output and services and other expenses</b>	<b>(22 023)</b>	<b>(27 075)</b>
IT costs	(3 942)	(5 032)
Marketing, advertising and other services	(5 527)	(7 258)
Costs of audit and related services**	(282)	(325)
Leases	(237)	(2 373)
Other purchased outputs and services	(11 911)	(12 037)
Creation of provisions for litigation	31	(50)
Creation (use) of provisions for restructuring	(155)	0
<b>General operating costs</b>	<b>(51 789)</b>	<b>(55 071)</b>

\* Including salaries and bonuses to members of the Management Board and Board of Directors.

\*\* Costs of audit and the related services provided by the auditor, included audit of financial statements, audit of COREP reports and other non-audit services.

Prima banka does not have pension arrangements separate from the compulsory state pension system of the Slovak Republic. Pursuant to Slovak legal regulations, an employer is 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 assessment base. These expenses are recognised in the statement of comprehensive income in the period in which the employee was entitled to a salary.

The Bank contributes to a defined contribution supplementary pension plan administered by a private pension fund, based on the employment period of the employee. No liabilities arise to the Bank from the payment of pensions to employees in the future. Supplementary pension insurance expenses amounted to € 129 thousand as at 3 December 2019 (31 December 2018: € 137 thousand).

## 20. Net Allocation to Provisions and Reserves

	31.12.2019	31.12.2018
(Allocation) of provisions for financial assets at amortised cost, of which:	<b>(5 300)</b>	<b>(3 320)</b>
Loans and advances	(5 194)	(1 788)
Debt securities	(106)	(1 532)
Allocation to provisions for off-balances sheet exposures	<b>786</b>	<b>(1 729)</b>
Written-off and assignment of receivables*	<b>(592)</b>	<b>(1 093)</b>
<b>Net Allocation to Provisions and Reserves</b>	<b>(5 106)</b>	<b>(6 142)</b>

\*including write off costs and payment received from written-off and assigned receivables

More information on provisions for losses from loans to customers and provisions for off-balance sheet liabilities is presented in Note 1 and in Note 11, respectively.

## 21. Income Tax

	31.12.2019	31.12.2018
Deferred tax	(138)	(101)
<b>Income tax</b>	<b>(138)</b>	<b>(101)</b>

### Theoretical Tax

The tax on the Bank's profit/loss before tax differs from the theoretical tax that would arise from using the effective income tax rate of 21% valid in the Slovak Republic (2018: 21%):

	31.12.2019	31.12.2018
<b>Profit/(loss) before tax</b>	<b>17 198</b>	<b>22 114</b>
<b>Theoretical tax at tax rate of 21% (2018: 21%) expense/(income)</b>	<b>3 612</b>	<b>4 644</b>
Tax-exempt income	(527)	(870)
Tax non-deductible expenses	1 322	2 005
Effect of a deferred tax asset not recognised in previous periods	(4 269)	(6 038)
Impact of the tax license	0	0
Other	0	360
<b>Total income tax expense/(income)</b>	<b>138</b>	<b>101</b>
<b>Effective tax rate</b>	<b>0,80%</b>	<b>0,46%</b>

### Deferred Income Tax

When recognising deferred tax assets and deferred tax liabilities, the Bank uses a conservative approach. Deferred tax assets and liabilities are calculated from temporary differences using the tax rate applicable for the following years - 21% (2018: 21%).

The effect of the recognition of a deferred tax asset and a deferred tax liability was as follows:

	Temporary difference		Deferred tax	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
<b>Deferred tax asset, of which:</b>	<b>179 925</b>	<b>203 099</b>	<b>37 784</b>	<b>42 651</b>
Loans receivables	141 435	166 569	29 701	34 979
Receivables from financial transactions	2 679	2 671	563	561
Short-term operating payables	14 440	14 509	3 032	3 047
Non-current tangible assets	6 495	5 852	1 364	1 229
Tax loss carried forward	399	0	84	0
Other receivables	14 477	13 498	3 040	2 835
<b>Total</b>	<b>x</b>	<b>x</b>	<b>37 784</b>	<b>42 651</b>
Adjustment for uncertain utilisation of deferred tax asset			(28 352)	(33 081)
<b>Deferred tax asset/(liabilities), net</b>	<b>x</b>	<b>x</b>	<b>9 432</b>	<b>9 570</b>
<b>Effect of deferred tax on:</b>				
expenses/income	x	x	(138)	(101)
equity	x	x	0	0



As at 31 December 2019, the Bank did not recognise a deferred tax asset in the amount of € 28 352 thousand (31 December 2018: € 33 081 thousand), which is related mainly to deductible temporary differences arising from provisions and reserves, other receivables and tax loss carried forward, due to their uncertain timing and utilisation in the future reporting periods.

## 22. Net Earnings per Share

	31.12.2019	31.12.2018
Net earnings for the current period (€ T)	17 060	22 013
Number of issued shares with value € 399	100 200	100 200
Number of issued shares with value € 67	100 200	100 200
Number of issued shares with value € 5	701 400	701 400
Number of issued shares with value € 1	176 572 738	176 572 738
Net earnings per share (face value € 399) in €	30.016	38.731
Net earnings per share (face value € 67) in €	5.040	6.504
Net earnings per share (face value € 5) in €	0.376	0.485
Net earnings per share (face value € 1) in €	0.075	0.097

## 23. Information on Statement of Cash Flows

In respect of the statement of cash flows, cash equivalents include the following items with a maturity of up to three months:

	31.12.2019	31.12.2018
Cash	99 048	95 750
Balances with central banks	28 748	18 508
Current accounts in other banks	2 762	5 315
Term deposits in banks up to 3 months	86	88
<b>Total</b>	<b>130 644</b>	<b>119 661</b>

## 24. Contingent Liabilities and Other Off-Balance Sheet Items

### Off-balance Sheet Assets

	31.12.2019	31.12.2018
Receivables from spot transactions	0	15 000
Guarantees received	7 057	12 818
Received collateral from pledge, security and other rights	3 547 603	3 017 719
<b>Total</b>	<b>3 554 660</b>	<b>3 045 537</b>

### Off-balance Sheet Liabilities

	31.12.2019	31.12.2018
Liabilities from spot transactions	0	15 000
Guarantees issued	6 134	7 253
Loan commitments and unused credit facilities	167 203	191 625
Letters of credit - given	0	2 945
Assets in custody	15 334	15 715
<b>Total</b>	<b>188 671</b>	<b>232 538</b>

The risk associated with off-balance sheet loan commitments, issued guarantees and contingent liabilities is assessed similarly as for loans to customers, and also reflects the financial situation and activities of the entity to which the Bank granted the guarantee as well as the value of received collateral. As at 31 December 2019, provisions recorded for off-balance sheet exposures amounted to € 3 553 thousand (31 December 2018: € 4 339 thousand), see Note 11 in this Chapter.

### Issued Guarantees

Guarantees issued to customers constitute Prima banka's obligations to make payments when its customers are not able to meet their obligations to third parties.

### Loan Commitments and Unused Credit Facilities

Loan commitments and unused credit facilities comprise approved but unused amounts of loans and overdraft facilities.

### Assets Received in Custody

Assets received from clients in custody are not in the Bank's possession and are thus not included in the Bank's assets. Income on securities in custody is recognised in the statement of comprehensive income as *"Net fee and commission income"*.

## 25. Residual Maturity of Derivatives

All derivatives are traded in the over-the-counter market. The summary of derivatives held for trading with positive fair values is described in Note 2 and the summary of hedging derivatives with negative fair values is described in Notes 9 of this chapter.

The following summary shows the residual maturity of derivatives' face values as at 31 December 2019:

	Up to 1 year	1 to 5 years	More than 5 years	Total
<b>Financial assets held for trading – derivatives</b>				
Currency swaps	11 960	0	0	11 960
<b>Hedging derivatives</b>				
Interest rate swaps	0	0	0	0
<b>Total off-balance sheet assets</b>	<b>11 960</b>	<b>0</b>	<b>0</b>	<b>11 960</b>
<b>Financial liabilities held for trading – derivatives</b>				
Currency swaps	11 880	0	0	11 880
<b>Hedging derivatives</b>				
Interest rate swaps	0	0	0	0
<b>Total off-balance sheet liabilities</b>	<b>11 880</b>	<b>0</b>	<b>0</b>	<b>11 880</b>
<b>Net derivatives</b>	<b>80</b>	<b>0</b>	<b>0</b>	<b>80</b>

The following summary shows the residual maturity of derivatives' face values as at 31 December 2018:

	Up to 1 year	1 to 5 years	More than 5 years	Total
<b>Financial assets held for trading – derivatives</b>				
Currency swaps	0	3 020	5 421	8 441
<b>Hedging derivatives</b>				
Interest rate swaps	10 149	0	0	10 149
<b>Total off-balance sheet assets</b>	<b>10 149</b>	<b>3 020</b>	<b>5 421</b>	<b>18 590</b>
<b>Financial liabilities held for trading – derivatives</b>				
Currency swaps	0	3 020	5 421	8 441
<b>Hedging derivatives</b>				
Interest rate swaps	10 122	0	0	10 122
<b>Total off-balance sheet liabilities</b>	<b>10 122</b>	<b>3 020</b>	<b>5 421</b>	<b>18 563</b>
<b>Net derivatives</b>	<b>27</b>	<b>0</b>	<b>0</b>	<b>27</b>

## 26. Fair Value of Financial Instruments

### Financial Instruments Recognised at Fair Value

The fair value of a financial instrument is the price at which it would be possible to sell the asset or transfer the liability as part of a standard transaction between market participants at the value determination date.

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

- Level 1 - market prices available on an active market for an identical financial instrument;
- Level 2 - if there is no market price, the Bank measures the financial instrument based on a model, which is a quantified estimate based on mathematical or statistical methods or a combination thereof, using market (observable) inputs with a strong impact on their fair value;
- Level 3 - valuation techniques where no observable market data with a significant impact on the fair value exist.

The following table presents an overview of financial instruments recognised at fair value and classified in Levels 1 - 3 based on the determination of their fair values as at 31 December 2019 (as at 31 December 2018):

<b>31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading: derivatives	0	103	0	103
Financial assets at fair value through other comprehensive income	0	0	3 100	3 100
<b>Financial assets at fair value total</b>	<b>0</b>	<b>103</b>	<b>3 100</b>	<b>3 203</b>
Financial liabilities held for trading: derivatives	0	0	0	0
Hedging derivatives	0	0	0	0
<b>Financial liabilities at fair value total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading: derivatives	0	52	0	52
Financial assets at fair value through other comprehensive income	0	0	2 141	2 141
<b>Financial assets at fair value total</b>	<b>0</b>	<b>52</b>	<b>2 141</b>	<b>2 193</b>
Hedging derivatives	0	427	0	427
<b>Financial liabilities at fair value total</b>	<b>0</b>	<b>427</b>	<b>0</b>	<b>427</b>

Financial assets at fair value through other comprehensive income are mainly capital participations in companies providing settlement and card services, whose fair value differs from their carrying amount after revaluation.

The fair value of derivatives is also determined by discounting future cash flows using the relevant yield curves consisting of observable market factors. The reconciliation of fair values of derivatives with a professional counterparty is performed on a monthly basis.

The following table shows the development of the fair value of financial instruments for which valuation models are based on unobservable market inputs:

	Financial assets at fair value through other comprehensive income	Negative fair value of derivatives
<b>Market value as at 31 December 2018</b>	<b>2 141</b>	<b>0</b>
Accrued coupon	0	0
<b>Carrying amount as at 31 December 2018</b>	<b>2 141</b>	<b>0</b>
Total gains/(losses)		
In profit/(loss)	(227)	0
In other comprehensive income	1 186	0
<b>Market value as at 31 December 2019</b>	<b>3 100</b>	<b>0</b>
Accrued coupon	0	0
<b>Carrying amount as at 31 December 2019</b>	<b>3 100</b>	<b>0</b>
Total gains/(losses) for the financial year included in the profit or loss for assets/liabilities held at the end of the reporting period	959	0

### Fair Value of Financial Assets and Liabilities Reported at Amortised Cost

The calculation of the fair value of assets and liabilities reported at amortized cost is based on the sequence using the prices listed at the beginning of this chapter. This means if there is an available market price, it is used by the Bank, otherwise, the Bank uses the model. The Bank uses a valuation technique based on the discounted future cash flows using observable market interest rates, which are modified for credit spreads. In this way, every planned cash flow is measured in line with the signed contracts with counterparties. For assets where fair values are available, the fair value is determined in line with them.

The calculation takes into account current interest rates, currency exchange rates, and credit spreads. Interest rates and currency exchange rates are provided by Bloomberg. The curve is projected as follows: for a period of up to one year Money Market rates are applied; for periods of over one year, swap rates are applied. Credit spreads are calculated as a product of PD (probability of default) and LGD (loss given default).

Fair values of financial instruments at amortised cost were determined for the presentation of the financial statements for general use. Information on the fair value of these instruments cannot be used for any specific transaction of purchase or sale of these financial instruments. The users of financial statements should not rely on these financial statements when assessing the fair value of financial instruments at amortised cost as the only source of information.

The following table shows the comparison of fair values and carrying amounts of balance sheet items as at 31 December 2019:

	Carrying amount	Estimated fair value		
		Level 1	Level 2	Level 3
Cash	99 048	0	99 048	0
Financial assets at amortised cost, of which:	4 022 390	222 146	353 568	3 531 017
Balances with central banks	349 638	0	349 638	0
Due from banks	3 851	0	3 930	0
Loans and advances to customers	3 437 837	0	0	3 531 017
Debt securities	231 064	222 146	0	17 967
<b>Financial assets</b>	<b>4 121 438</b>	<b>222 146</b>	<b>452 616</b>	<b>3 548 984</b>
Financial liabilities at amortised cost, of which:	3 776 781	496 917	23 908	3 286 540
Loans and deposits received from central banks	0	0	0	0
Due to banks	21 341	0	21 390	0
Customer deposits	3 251 476	0	0	3 286 540
Issued securities	503 964	496 917	2 518	0
<b>Financial liabilities</b>	<b>3 776 781</b>	<b>496 917</b>	<b>23 908</b>	<b>3 286 540</b>

The following table shows the comparison of fair values and carrying amounts of balance sheet items as at 31 December 2018:

	Carrying amount	Estimated fair value		
		Level 1	Level 2	Level 3
Cash	95 750	0	95 750	0
Financial assets at amortised cost, of which:	3 464 239	302 275	127 353	3 270 455
Balances with central banks	97 006	0	97 006	0
Due from banks	7 095	0	7 220	0
Loans and advances to customers	3 054 489	0	0	3 270 455
Debt securities	305 649	302 275	0	0
<b>Financial assets</b>	<b>3 559 989</b>	<b>302 275</b>	<b>223 103</b>	<b>3 270 455</b>
Financial liabilities at amortised cost, of which:	3 220 271	0	132 844	3 062 933
Loans and deposits received from central banks	100 000	0	100 000	0
Due to banks	30 517	0	30 611	0
Customer deposits	3 087 787	0	0	3 062 933
Issued securities	1 967	0	2 232	0
<b>Financial liabilities</b>	<b>3 220 271</b>	<b>0</b>	<b>132 844</b>	<b>3 062 933</b>

The fair value of cash is the same as the carrying amount.

The fair value of receivables from and payables to banks is given as the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread. As most of these deposits are short term, their fair value approximates the carrying amount.

The fair value of receivables from and payables to customers is stated similarly as for receivables from and payables to banks. For receivables and payables with fixed interest and a residual maturity of less than one year, and for receivables and payables with a floating interest if the re-fixing period is shorter than one year, their fair value approximates the carrying value.

The fair-value measurement for financial assets at amortised cost is based on an observable market price from Bloomberg. If the market price of a security is not available, the valuation is based on a calculation of the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread.

The fair value of issued mortgage debentures is calculated as the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread.

## 27. Capital Management

### Own Funds

Regulatory capital represents Prima banka's own funds intended for covering unexpected losses resulting from financial risks to which the Bank is exposed. It is calculated in accordance with the valid Regulation of the European Parliament and of the Council (EC) No 575/2013 on prudential requirements for credit institutions and investment firms (the "CRR") and serves for the capital adequacy calculation in accordance with the CRR. In accordance with the CRR, regulatory capital must cover particular capital requirements on credit risk of the Trading and Banking Books, market risk of the Trading and Banking Books (interest-rate and currency risks), and operational risk.

The Bank's Management Board is regularly informed of the status and expected development of the adequacy of own funds along with other capital stability parameters which are classified in the Bank's system of risk appetite parameters, and necessary actions are taken on time to comply with the set parameters.

Prima banka's own funds represent a sum of original (Tier 1) and additional own funds (Tier 2) reduced by deductible items. Original own funds consist of paid-up share capital, share premiums, other funds (legal reserve fund, funds created from profit after tax and other capital funds), and retained earnings from previous years. Original own funds are reduced by the net book value of intangible assets and profit/loss to be approved, provided that the loss or loss from previous years was recognized. Additional own funds consist of general credit risk adjustments acceptable as Tier 2 capital.

Prima banka's own funds and regulatory capital requirements as at 31 December 2019 and 31 December 2018 are stated in the table below:

The accompanying notes are an integral part of these financial statements.

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

<b>Own funds</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
<b>Original own funds (Tier 1 Capital)</b>	<b>336 934</b>	<b>312 096</b>
<b>Items creating the value of original own funds</b>	<b>359 830</b>	<b>355 440</b>
Paid-up share capital	226 773	226 773
Share premium	71 190	71 190
Purchased own shares	0	0
Other funds	60 517	58 315
Allowable profit	0	0
Another accumulated comprehensive result	1 350	(838)
<b>Items reducing the amount of original own funds</b>	<b>(22 895)</b>	<b>(43 344)</b>
Accumulated loss of previous year	(21 002)	(41 451)
Intangible assets	(1 893)	(1 893)
<b>Additional own funds (Tier 2 Capital)</b>	<b>22 820</b>	<b>21 959</b>
<b>Items creating the value of additional own funds</b>	<b>22 820</b>	<b>21 959</b>
General credit risk adjustments	22 820	21 959
<b>Own funds total</b>	<b>359 754</b>	<b>334 055</b>
<b>Own funds requirements*</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Own funds requirements to cover credit risk and risk of impairment of receivables	146 047	141 355
Own funds requirements to cover operational risk	12 794	13 300
Own funds requirements to cover CVA risk	5	11
<b>Own funds requirements</b>	<b>158 944</b>	<b>154 666</b>

Prima banka met regulatory requirements under the CRR. As at 31 December 2019, the Bank's overall capital adequacy was 18.12 % (31 December 2018: 17.33%). The Bank uses a standardised approach for the calculation of own funds requirements.

## 28. Risk Management

### 1. Credit Risk

#### a) Information on Credit Risk Policy, Objectives and Management

The fundamental goal of the credit risk management strategy at Prima banka is to optimize the amount of accepted risks in line with the capital coverage amount and to generate sustainable profits over the long-term. The Bank has established a separate organizational unit at the Risk Management Division to identify, measure, monitor, and minimize credit risk and this division is independent from trading and settlements. The whole process is subject to the approved Risk and Capital Management Strategy, which is regularly reassessed in line with changes in the Slovak banking market. Lending is subject to the rules stipulated in the strategy and risk parameters and limits for issuing new loans are strictly observed by members of the credit approval bodies and monitored by the Bank's management, on the basis of regular reporting. Information on customers is permanently monitored and assessed.

Customers are assigned to risk segments to ensure correct monitoring, quantification, reporting and management of credit risks. Exposure limits are set for the defined segments. Exposure limits are also set for individual customers.



The following table gives the maximum amount of credit risk net of provisions, without considering the received collateral:

<b>Credit risk related to balance sheet assets:</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Financial assets at amortised cost	4 022 390	3 464 239
Balances with central banks	349 638	97 006
Due from banks	3 851	7 095
Loans and advances to customers	3 437 837	3 054 489
Debt securities	231 064	305 649
Trading derivatives	103	0
Financial assets at fair value through other comprehensive income	3 100	2 141
Deferred tax assets	9 432	9 570
Other assets	22 139	11 988
<b>Total</b>	<b>4 057 164</b>	<b>3 487 938</b>

<b>Credit risk related to off-balance sheet items prior to the deduction of reserves:</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Issued guarantees	6 134	7 253
Loan commitments and unused credit limits	167 203	191 625
Issued letters of credit	0	2 945
<b>Total</b>	<b>173 337</b>	<b>201 823</b>

Summary of individual types of received collateral for financial assets in recoverable amounts to cover provided loans:

<b>To cover granted loans</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Cash	2 812	14 683
Securities	0	0
Immovable assets	3 539 300	2 994 133
Movable assets	5 491	6 692
<b>Collateral received for financial assets</b>	<b>3 547 603</b>	<b>3 015 508</b>

## **b) Description of Credit Risk Measurement and Monitoring Methods**

Credit risk is the fundamental and most significant bank risk; therefore, its management has a critical impact on Prima banka's results. In order to minimize credit risk, Prima banka uses various instruments to collateralize credit transactions and focuses on identifying and handling risks arising in credit risk mitigation. Through its internal procedures, Prima banka defines activities to be performed when valuating and accepting collateral instruments.

Prima banka uses its own rating system to assess customer creditworthiness, which is based on an assessment of the customer's financial and non-financial results. Prima banka has developed a specific system for assessing corporate, municipal, retail and sole trader customers. Customers are assigned to one of 17 risk groups. The credit scores are subject to reassessment and revised as and when needed, based on a decision of the Credit Committee.

Characteristics of individual rating levels are given in the following summary:

Rating	Characteristics
<b>AAA</b>	The highest rated entities with small risk and an extremely strong capacity to meet their financial commitments.
<b>AA+</b> <b>AA</b> <b>AA-</b>	Highly rated entities with very strong capacity to meet their financial commitments, with moderate risk over the long-term. It differs from the AAA rating to a small degree.
<b>A+</b> <b>A</b> <b>A-</b>	Highly rated entities with strong capacity to meet their financial commitments, with recommended monitoring of future risk in the medium- and long-term.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	Creditworthy entities with adequate capacity to meet their financial commitments, but susceptible to adverse economic conditions or changing circumstances.
<b>BB+</b> <b>BB</b> <b>BB-</b>	Entities with some ability to meet their present liabilities, likely to be significantly affected by adverse economic conditions or changing circumstances.
<b>B+</b> <b>B</b>	Entities with vulnerable ability to meet their financial commitments, with risky future.
<b>B-</b> <b>CCC</b>	Highly risky and unstable entities with very low probability of meeting their financial commitments.

Credit risk is minimized at Prima banka by applying the following:

1. Active monitoring
2. Early identification of non-performing loans
3. Rating scale expressing the probability of a debtor's default
4. Credit procedures
5. Credit security (bank price fixing)
6. Internal review
7. Credit limits system
8. Black list, watch list and information from the Credit Registry and Social Insurance.

The quality of amounts due from banks and loans and advances to customers that are not impaired and are not overdue, prior to the deduction of provisions according to the Bank's internal rating:

Rating scale	Due from banks		Loans and advances to customer, of which:			
	31.12.2019	31.12.2018	Public administration		Other clients	
	3 851	7 095	141 672	140 329	412 466	576 775
Rating A	425	20	20 029	21 409	3 483	26 242
Rating A-	1 996	2 490	9 586	9 783	1 258	7 104
Rating A+	0	1 464	10 596	11 202	3 897	29 717
Rating AA	17	4	5 934	6 184	538	48 543
Rating AA-	0	0	9 543	9 330	626	1 622
Rating AA+	0	0	2 386	1 485	609	297
Rating AAA	0	0	96	380	496	47
Rating B	0	0	3 253	3 490	21 678	13 239
Rating B-	77	126	56	160	4 648	14 370
Rating B+	1 002	0	1 747	1 843	2 887	6 417
Rating BB	0	6	9 600	6 889	177 639	297 168
Rating BB-	0	1 758	7 470	4 856	28 183	31 488
Rating BB+	0	0	11 351	10 441	79 949	10 983
Rating BBB	136	184	9 695	9 255	8 445	8 610
Rating BBB-	98	74	9 639	9 156	6 599	3 984
Rating BBB+	100	969	30 225	34 466	3 681	13 155
Rating CCC	0	0	466	0	67 850	63 789

Quality of debt securities that are not impaired, prior to the deduction of provisions according to the Bank's internal rating:

Rating scale	Debt securities					
	31.12.2019			31.12.2018		
	Banks	Public administration	Corporate	Banks	Public administration	Corporate
	16 023	197 074	20 080	16 019	271 558	20 080
Rating A+	0	131 297	0	0	187 064	0
Rating A-	0	50 473	0	0	50 685	0
Rating BBB	16 023	0	0	16 019	10 047	0
Rating BBB-	0	15 304	20 080	0	23 762	20 080

Quality of off-balance sheet liabilities – issued guarantees and loan commitments according to the Bank's internal rating:

Ratingový stupeň	Issued guarantees				Loan commitments			
	Public administration		Other clients		Public administration		Other clients	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	3 896	3 702	840	6 337	32 598	21 600	15 863	55 453
Rating A	85	117	172	179	4 473	3 543	873	927
Rating A-	656	675	0	383	3 450	2 540	715	1 522
Rating A+	863	1 336	60	44	3 589	3 105	874	1 312
Rating AA	341	31	4	272	1 888	1 402	264	1 230
Rating AA-	653	760	0	415	5 185	3 547	693	1 219
Rating AA+	0	0	372	10	1 034	277	642	1 162
Rating AAA	0	0	0	0	0	0	463	32
Rating B	0	0	0	0	17	6	55	181
Rating B-	0	0	0	0	0	0	51	81
Rating B+	0	0	0	0	263	52	530	1 284
Rating BB	98	78	0	1 312	3 005	876	2 099	5 960
Rating BB-	0	0	3	3	955	571	5 788	342
Rating BB+	527	0	15	45	1 792	1 052	525	3 731
Rating BBB	0	49	0	40	2 417	1 357	423	1 454
Rating BBB-	302	350	8	8	1 920	1 473	597	1 270
Rating BBB+	371	306	206	383	2 248	1 799	940	1 317
Rating CCC	0	0	0	3 243	362	0	331	32 429

Credit risk associated with the securities portfolio is low as the majority of purchased debt securities are government bonds issued by EU countries. As at 31 December 2019, the exposure to bank and corporate debt securities amounts to € 36 103 thousand (31 December 2018: € 36 099 thousand).

### c) Risk Monitoring - Limit Setting

Prima banka monitors and evaluates counterparty limits and their use on a daily basis. The Bank reviews whether the limits have been met or exceeded and decides on further steps pursuant to internal rules. Limits are set according to segments, sectors, products and collateral.

The Bank ensures on an ongoing basis that its asset exposure net of the effects of credit risk mitigation, including the date of origin of asset exposure, does not exceed the higher of a) 25% of the Bank's regulatory capital and b) the limit for banks or bank groups towards an institution, and towards a group of economically-linked parties where at least one of the parties is an institution, if the sum of values of the Bank's asset exposures net of the effects of credit risk mitigation towards all other parties that are members of the group of economically-linked parties and that at the same time are not institutions, does not exceed 25% of the Bank's regulatory capital.

Bank limit: Prima banka monitors and evaluates compliance with limits for bank entities separately. Limits are set as the absolute maximum amount of exposure to the relevant counterparty.

Country limit: Prima banka monitors and evaluates compliance with country limits separately. Limits are set as the absolute maximum amount of exposure to the relevant counterparty.

#### **d) Credit Risk Concentration Risk – Procedures and Methods Used for Credit Risk Concentration Hedging**

For the purposes of the Bank's credit risk management strategy and related banking instructions, Prima banka considers concentration risk to be the risk arising from concentrating the Bank's transactions (asset exposure) with an individual, a group of economically-related parties, the state, a geographic area, or an economic sector.

The limits of asset exposure are expressed as shares of the Bank's own funds, which limit exposure in relation to the size of the Bank. The upper limit of the total exposure of the Banking and Trading Books corresponds with the limits stipulated by the CRR.

The table below provides an analysis of credit risk exposure by industry segments as at 31 December 2019 and 31 December 2018:

	31.12.2019	31.12.2018
Agriculture, forestry and fishing	545	2 289
Mining and quarrying	18	89
Manufacturing	7 248	16 964
Electricity, gas, steam and air conditioning supply	5 184	16 003
Water supply; sewerage and waste water management	3 156	3 854
Construction	4 552	5 894
Wholesale and retail trade	22 180	37 481
Transportation and storage	1 864	3 433
Accommodation and catering	6 000	2 782
Information and communication	420	775
Financial and insurance activities	207 360	184 311
Real estate activities	143 912	111 498
Professional, scientific and technical activities	4 296	6 187
Administrative and support service activities	4 377	50 420
Public administration and defence; compulsory social security	142 196	140 523
Education	155	55
Health care and social work activities	2 713	3 274
Arts, entertainment and recreation	2 236	2 658
Other activities	370	458
Activities of households as employers	2 879 055	2 465 551
<b>Total</b>	<b>3 437 837</b>	<b>3 054 499</b>

#### **e) Identification of Impaired Assets (Mainly Receivables)**

In respect of impaired assets, Prima banka has stipulated related rules and procedures in its internal regulations. The rules for identifying impaired assets are based on the rules specified in the NBS's Decrees, related internal regulations, and International Financial Reporting Standards.

The summary below provides an analysis of the unimpaired loan portfolio (stage 1 and stage 2) based on days overdue as at 31 December 2019 prior to the deduction of provisions:

	Within maturity	Up to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Received collateral to defaulted loans
Loans and deposits with other banks	3 851	0	0	0	0	0
Loans and advances to customers, of which:	3 450 346	28 898	3	0	0	18 610
Public administration	141 672	215	0	0	0	22
Other clients	412 464	3 663	3	0	0	530
Individuals	2 896 210	25 020	0	0	0	18 058
<b>Total</b>	<b>3 454 197</b>	<b>28 898</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>18 610</b>

The summary below provides an analysis of the unimpaired loan portfolio according to days overdue as at 31 December 2018 prior to the deduction of provisions:

	Within maturity	Up to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Received collateral to defaulted loans
Loans and deposits with other banks	7 095	0	0	0	0	0
Loans and advances to customers, of which:	3 063 826	22 781	0	1	0	23 972
Public administration	140 329	138	0	0	0	0
Other clients	576 775	3 197	0	1	0	1 424
Individuals	2 346 722	19 446	0	0	0	22 548
<b>Total</b>	<b>3 070 921</b>	<b>22 781</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>23 972</b>

The summary below provides an analysis of the impaired loan portfolio (stage 3) as at 31 December 2019, including other receivables from financial transactions:

	Public sector	Other clients	Retail clients	Total
Individually measured – impaired loans	1 060	48 942	704	50 706
Specific provisions	737	48 610	677	50 024
Recoverable amount of collateral received – individually measured	295	330	27	652
Portfolio measured – impaired loans	0	16 396	41 153	57 549
Portfolio provisions	0	14 530	32 873	47 403
Recoverable amount of collateral received – portfolio measured	0	406	8 288	8 694
% of coverage by provisions	70%	97%	80%	90%
% of coverage by provisions and received collateral	97%	98%	100%	99%
Interest income on impaired loans	x	x	x	355

The Bank classified other financial assets (derivatives, cash collateral, others assets) in the amount of € 12 412 thousand from "Loans and Advances to Customers" to „Others assets" as at 30 Jun 2019.

The summary below provides an analysis of the impaired loan portfolio as at 31 December 2018, including other receivables from financial transactions:

	Public sector	Other clients	Retail clients	Total
Individually measured – impaired loans	1 194	69 480	0	70 674
Specific provisions	805	67 089	0	67 894
Recoverable amount of collateral received – individually measured	0	2 551	0	2 551
Portfolio measured – impaired loans	0	20 797	49 246	70 043
Portfolio provisions	0	17 933	41 152	59 085
Recoverable amount of collateral received – portfolio measured	0	2 442	8 023	10 465
% of coverage by provisions	67%	94%	84%	90%
% of coverage by provisions and received collateral	67%	100%	100%	99%
Interest income on impaired loans	x	x	x	2 131

## Restructuring

The Bank may modify the repayment terms of its loan receivables if the client's financial position is weak and the client will be unable to repay its liabilities to the Bank at agreed time.

For overdraft loans, the loan agreements may be transformed into instalment loans. In extraordinary circumstances, an overdraft loan may be extended but with the use of a gradual reduction. For instalment loans, repayment schedules are modified if a client is unable to keep to the agreed-upon deadlines.

The carrying amount of credit receivables whose contractual terms and conditions were amended due to their non-payment or the customer's impaired financial condition was € 514 thousand as at 31 December 2019 (31 December 2018: € 1 873 thousand).

The Bank sold real estate pledged against receivables which were unpaid as at 3 December 2019 for € 3 769 thousand (31 December 2018: € 3 446 thousand). The Bank sold a pledge over moveable assets (receivables) as at 31 December 2019 for € 0 thousand (31 December 2018: € 0 thousand).

## f) Description of the Procedures and Rules of Acceptable Collateral Acceptance and Valuation

The accompanying notes are an integral part of these financial statements.

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

The procedures and rules for the collateral acceptance and valuation have been specified in Prima banka's internal regulations. Collateral is used to minimise the Bank's credit risk and constitutes a secondary source of credit repayment. Collateral should guarantee repayment of the Bank's receivables arising from credit transactions if a debtor becomes insolvent due to the deterioration of his financial position. Collateral has both financed and non-financed form.

Financed collateral means the right of lien (on immovable assets, movable assets, receivables, cash collateral, securities, etc). The Bank accepts various forms of collateral depending on a debtor's creditworthiness and collateral quality. Prima banka determines individual acceptance values of collateral on the basis of professional experience and historical results.

Prima banka's right of lien on collateral instruments is constituted by a written agreement, which is an inseparable part of a loan agreement. The agreement contains terms and conditions governing the implementation process and termination of the lien.

Non-financed collateral means a guarantee by third parties (state guarantee, bank guarantee, corporate guarantee, or personal guarantee). This collateral's effectiveness is subject to a commitment of unconditional debt assumption if the primary debtor is in default. Such a commitment is stipulated in a written agreement with the guarantor. Other instruments used by Prima banka to manage credit risk include a notarial deed, promissory note, insurance, and comfort letter.

The collateral held by Prima banka must comply with legal regulations, be enforceable in court, be of good quality, and comply with maximum liquidity requirements so that a yield from the collateral covers the highest possible amount of a customer's liabilities arising from a granted credit product. The collateral instruments held are listed in Note 29 (1). When valuating collateral, Prima banka takes into consideration the collateral's general value set by a court expert in an expert opinion (immovable assets, movable assets), the carrying amount maintained in the customer's accounting books (receivables, stock, new movable assets), and the market value (securities).

The following principles are applied when accepting and valuing collateral:

- Collateral is considered a secondary source of loan repayment.
- The required collateral amount/value depends on the level of accepted credit risk. Unsecured loans are typically only used for operational financing and for small amounts.
- The physical inspection of collateral is performed by a front-office employee (primarily for commercial real estate) who prepares a report on such an inspection.
- A real estate collateral valuation is prepared by a court expert and revalued by a bank supervisor.
- Real estate revaluation depends on conditions on the Slovak real estate market. Prima banka responds to significant changes in the real estate market by revaluating held collateral.
- The asset to be financed is usually required to be used as collateral.

## **2. Market Risk**

### **a) Information on Market Risk Policy and Management**

As regards market risk, Prima banka only takes into consideration interest and currency risk. Share and commodity risk is insignificant as Prima banka's approved strategy does not allow such instruments to be purchased for the Bank's portfolio due to the high risk. Exposure to equities, which Prima banka includes in the Banking Book, is very limited and they are not held for capital gain purposes. When valuing these exposures, Prima banka uses an equity method or recognizes them at their nominal value.

The market risk management system arises from the provisions of the CRR, the Banking Act and the related Decrees of the National Bank of Slovakia on prudent banking, risk management, and bank liquidity management.

Market risk management rules at Prima banka are primarily specified in internal documents that have been approved by the statutory body and contain the key targets, principles and procedures for market risk management. The responsibility for market risk management is assigned to the ALCO Committee, which makes decisions based on the underlying data provided by the relevant departments.

In order to manage the Trading Book and the Banking Book and to measure and monitor the market risk, Prima banka uses the Value at Risk method ("VaR"), a gap analysis and calculation of net present value ("NPV") or changes in NPV at a parallel and non-parallel shift in the yield curve. Prima banka uses a standard method as defined in the CRR to report and calculate its regulatory capital to cover market risk.

**b) Interest Risk**

Prima banka manages interest risk with respect to the current and expected situation in the market by adjusting the assets and liabilities structure in terms of the type of interest rate and maturity of new transactions. Interest risk is managed separately for the Trading Book and the Banking Book. In line with the approved strategy, the Bank does not perform transactions that would meet conditions for including them in the Trading Book. The position in the Trading Book is zero.

To measure the Banking Book's interest risk, Prima banka uses the VaR method on a weekly and a monthly basis at the 99% reliability interval. The interest risk of the Banking Book is measured based on estimated changes to the Net Present Value (NPV) positions caused by changes in market interest rates. The method is based on a gap analysis of the Banking Book positions. In addition, estimated changes to NPV positions in the Banking Book are calculated at a parallel shift in the yield curves of +/- 100, +/- 200 and +/- 300 basis points, including an opportunity for a non-parallel shift of the yield curve, and above all positions in the portfolio of financial assets at fair value through profit or loss at a parallel shift in the yield curves by +/- 100 basis points. Using back testing, Prima banka compares estimated VaR with changes to NPV positions caused by interest rate fluctuations on a weekly and monthly basis and evaluates the back testing results once a year.

Demand deposits (current accounts and term deposits accounts) are mapped by the Bank by time bands 1 month – 6 years. The Bank uses an internal model for the mapping and it is performed automatically in the data warehouse based on the approved model. The Bank classifies demand deposits into bands with a longer maturity than those that correspond to interest rate sensitivity. The mapping is based on the historical monitoring of movements in balances and the probability that the fulfilment of the relevant liabilities will not be requested (back testing).

The estimated change in the NPV positions in the Banking Book resulting from the interest rate fluctuation is quantified in the following table, assuming a negative movement of the yield curve to the detriment of the Bank by +100 basis points.

The impact of a change in the present value of assets and liabilities due to a change in the interest rate for euro positions as at 31 December 2019:

	<b>Movement in yield curve</b>	<b>Bank's loss from movement in yield curve</b>
Banking Book: euro	+100 BP	(176)
<b>Total</b>		<b>(176)</b>

The impact of a change in the present value of assets and liabilities due to a change in the interest rate for euro positions as at 31 December 2018:

	<b>Movement in yield curve</b>	<b>Bank's loss from movement in yield curve</b>
Banking Book: euro	+100 BP	(11 288)
<b>Total</b>		<b>(11 288)</b>

In terms of the Bank's overall position, the positions in other currencies are insignificant. A potential effect of movements in the yield curve on the Bank's profit/loss with respect to other currencies is insignificant.

The following table presents information on the balance sheet amounts of financial assets and liabilities per interest rate fluctuation risk. The assets and liabilities with a fixed interest rate are classified according to maturity date. The assets and liabilities with variable interest rates are listed according to the date of the anticipated closest change in interest rates. The Bank uses an internal model to classify demand deposits and savings deposits. Assets and liabilities without a contractually agreed maturity date and those that bear no interest are classified as "Unspecified items".



## Financial assets and liabilities according to the risk of interest rate fluctuations as at 31 December 2019:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspecified items	Total
Financial assets at amortised cost, of which:						
Balances with central banks	349 638	0	0	0	0	349 638
Due from banks	2 848	683	320	0	0	3 851
Loans and advances to customers	281 278	757 589	2 372 256	28 209	(1 495)	3 437 837
Debt securities	2 068	52 290	115 180	61 526	0	231 064
Financial assets at fair value through other comprehensive income	3 100	0	0	0	0	3 100
Financial assets held for trading – derivatives	103	0	0	0	0	103
<b>Interest rate position - financial assets</b>	<b>639 035</b>	<b>810 562</b>	<b>2 487 756</b>	<b>89 735</b>	<b>(1 495)</b>	<b>4 025 593</b>
Financial liabilities at amortised cost, of which:						
Loans and deposits received from central banks	0	0	0	0	0	0
Due to banks	1 300	20 041	0	0	0	21 341
Customer deposits	655 146	666 696	1 871 213	58 421	0	3 251 476
Issued securities	0	13	1 908	502 043	0	503 964
Leases	0	52	6 388	1 271	0	7 711
Hedging derivatives	0	0	0	0	0	0
<b>Interest rate position - financial liabilities</b>	<b>656 446</b>	<b>686 802</b>	<b>1 879 509</b>	<b>56 1 735</b>	<b>0</b>	<b>3 784 492</b>
<b>Net interest rate position</b>	<b>(17 411)</b>	<b>123 760</b>	<b>608 247</b>	<b>(472 000)</b>	<b>(1 495)</b>	<b>241 101</b>

## Financial assets and liabilities according to the risk of interest rate fluctuations as at 31 December 2018:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspecified items	Total
Financial assets at amortised cost, of which:						
Balances with central banks	97 006	0	0	0	0	97 006
Due from banks	5 404	719	972	0	0	7 095
Loans and advances to customers	481 078	822 531	1 721 935	34 887	(5 942)	3 054 489
Debt securities	2 071	75 652	162 708	65 218	0	305 649
Financial assets at fair value through other comprehensive income	2 141	0	0	0	0	2 141
Financial assets held for trading – derivatives	52	0	0	0	0	52
<b>Interest rate position - financial assets</b>	<b>587 752</b>	<b>898 902</b>	<b>1 885 615</b>	<b>100 105</b>	<b>(5 942)</b>	<b>3 466 432</b>
Financial liabilities at amortised cost, of which:						
Loans and deposits received from central banks	100 000	0	0	0	0	100 000
Due from banks	1 644	28 873	0	0	0	30 517
Customer deposits	636 568	706 337	1 684 517	60 365	0	3 087 787
Issued securities	0	0	1 967	0	0	1 967
Financial liabilities held for trading - derivatives	0	0	0	0	0	0
Hedging derivatives	427	0	0	0	0	427
<b>Interest rate position - financial liabilities</b>	<b>738 639</b>	<b>735 210</b>	<b>1 686 484</b>	<b>60 365</b>	<b>0</b>	<b>3 220 698</b>
<b>Net interest rate position</b>	<b>(150 887)</b>	<b>163 692</b>	<b>199 131</b>	<b>39 740</b>	<b>(5 942)</b>	<b>245 734</b>

**c) Liquidity Risk**

Liquidity risk is the risk of a potential loss of the ability to pay one's liabilities as they mature. It is in the interest of the Bank to maintain permanent solvency, ie the ability to settle liabilities duly and on time, and to manage assets and liabilities to ensure the Bank always has sufficient liquidity.

Prima banka monitors liquidity risk via external and internal liquidity indicators and warning signals. From the externally defined liquidity indicators, the liquid assets indicator may not be lower than 1. During the nine months of year 2019, the Bank complied with the above legislative indicator with a sufficient cushion.

Internal liquidity indicators include, but are not limited to: seven-day liquidity indicator, global indicators of short- and long-term liquidity.

Liquidity warning signals include: amount of the volatile portion of demand deposits; LD ratio (ratio of primary deposits excl. mortgage debentures to extended loans); daily or weekly decrease in capital; daily or weekly increase in loan receivables overdue by more than 30 days; and weekly or monthly additions to loans, balance sheet amount of selected foreign currencies to the Bank's total assets.

The method for measuring liquidity risk is based on the measuring of net and accumulated cash flows in the relevant time bands for all balance sheet and selected off-balance sheet items. Prima banka has prepared basic and alternative scenarios and a contingency plan - crisis scenarios. The Bank maintains its sound and sustainable development by observing its liquidity limits and managing its balance sheet structure.

The table below provides an analysis of the earliest possible contractual maturity of assets and liabilities by current residual maturity as at 31 December 2019:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspe- cified items	Total
Cash	99 048	0	0	0	0	99 048
Financial assets at amortised cost, of which:						
Balances with central banks	349 638	0	0	0	0	349 638
Due from banks	2 848	683	320	0	0	3 851
Loans and advances to customers	171 331	281 651	916 540	2 084 294	(15 979)	3 437 837
Debt securities	2 068	52 289	115 181	61 526	0	231 064
Financial assets held for trading - derivatives	103	0	0	0	0	103
Financial assets at fair value through other comprehensive income	0	0	0	0	3 100	3 100
Non-current tangible assets	0	0	0	0	20 613	20 613
Non-current intangible assets	0	0	0	0	1 893	1 893
Deferred tax asset					9 432	9 432
Other assets	0	0	0	8 613	13 526	22 139
<b>Assets total</b>	<b>625 036</b>	<b>334 623</b>	<b>1 032 041</b>	<b>2 154 433</b>	<b>32 585</b>	<b>4 178 718</b>
Financial liabilities at amortised cost, of which:						
Loans and deposits received from central banks	0	0	0	0	0	0
Due to banks	1 300	20 041	0	0	0	21 341
Customer deposits	2 092 898	482 157	676 012	409	0	3 251 476
Issued securities	0	13	1 908	502 043	0	503 964
Leases	0	52	6 388	1 271	0	7 711
Hedging derivatives	0	0	0	0	0	0
Reserves	0	0	0	0	14 791	14 791
Other liabilities	32 831	0	0	0	583	33 414
Total equity	0	0	0	0	346 021	346 021
<b>Liabilities and equity total</b>	<b>2 127 029</b>	<b>502 263</b>	<b>684 308</b>	<b>503 723</b>	<b>361 395</b>	<b>4 178 718</b>
<b>Net balance sheet position</b>	<b>(1 501 993)</b>	<b>(167 640)</b>	<b>347 733</b>	<b>1 650 710</b>	<b>(328 810)</b>	<b>0</b>

The table below provides an analysis of the earliest possible contractual maturity of assets and liabilities by current residual maturity as at 31 December 2018:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspe- cified items	Total
Cash	95 750	0	0	0	0	95 750
Financial assets at amortised cost, of which:						
Balances with central banks	97 006	0	0	0	0	97 006
Due from banks	5 404	719	972	0	0	7 095
Loans and advances to customers	194 621	193 981	857 786	1 825 930	(17 829)	3 054 489
Debt securities	2 071	75 652	162 708	65 218	0	305 649
Financial assets held for trading – derivatives					52	52
Financial assets at fair value through other comprehensive income	0	0	0	2 141	0	2 141
Non-current tangible assets	0	0	0	0	14 412	14 412
Non-current intangible assets	0	0	0	0	1 894	1 894
Deferred tax asset					9 570	9 570
Other assets	0	0	0	0	11 988	11 988
<b>Assets total</b>	<b>394 852</b>	<b>270 352</b>	<b>1 021 466</b>	<b>1 893 289</b>	<b>20 087</b>	<b>3 600 046</b>
Financial liabilities at amortised cost, of which:						
Loans and deposits received from central banks	100 000	0	0	0	0	100 000
Due to banks	1 644	28 873	0	0	0	30 517
Customer deposits	1 971 633	535 205	580 141	808	0	3 087 787
Issued securities	0	0	1 967	0	0	1 967
Hedging derivatives	0	0	0	0	427	427
Reserves	0	0	0	0	15 942	15 942
Other liabilities	24 644	0	0	0	11 989	36 633
Total equity	0	0	0	0	326 773	326 773
<b>Liabilities and equity total</b>	<b>2 097 921</b>	<b>564 078</b>	<b>582 108</b>	<b>808</b>	<b>355 131</b>	<b>3 600 046</b>
<b>Net balance sheet position</b>	<b>(1 703 069)</b>	<b>(293 726)</b>	<b>439 358</b>	<b>1 892 481</b>	<b>(335 044)</b>	<b>0</b>

The summary below is an analysis of the earliest possible contractual maturity of non-derivative financial liabilities, ie the worst-case scenario as at 31 December 2019 (in undiscounted values):

Non-derivative financial liabilities:	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	More than 5 years incl.
Financial liabilities at amortised cost, of which:						
Due to banks	21 341	21 362	1 300	20 062	0	0
Customer deposits	3 251 476	3 277 421	2 093 191	485 707	698 114	409
Issued securities	503 964	504 414	0	69	2 076	502 268
Leases	7 711	7 711	0	0	0	7 711
Other liabilities	33 414	33 414	33 414	0	0	0

The summary below is an analysis of the earliest possible contractual maturity of non-derivative financial liabilities, ie the worst-case scenario as at 31 December 2018 (in undiscounted values):

Non-derivative financial liabilities:	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	More than 5 years incl.
Financial assets at amortised cost, of which:						
Due to banks	30 517	30 639	1 644	28 995	0	0
Customer deposits	3 087 787	3 100 138	1 971 918	538 570	588 842	808
Issued securities	1 967	2 149	0	0	2 149	0
Other liabilities	36 633	36 633	36 633	0	0	0

The summary below provides the worst-case scenario of an analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2019 (in undiscounted values):

Contingent liabilities and other off-balance sheet items:	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.
Contingent liabilities from guarantees	6 134	6 118	6 118	0
Contingent liabilities from letters of credit	0	0	0	0
Loan commitments, of which:	167 203	167 203	167 103	100
irrevocable	167 037	167 037	167 037	0

The summary below is the worst-case scenario of an analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2018 (in undiscounted values):

Contingent liabilities and other off-balance sheet items:	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.
Contingent liabilities from guarantees	7 253	7 237	7 237	0
Contingent liabilities from letters of credit	2 945	2 913	2 913	0
Loan commitments, of which:	191 625	191 625	191 625	0
irrevocable	191 625	191 625	191 625	0

#### d) Exchange Rate Risk

The Bank continued to apply conservative exchange rate risk management in accordance with the set limits. Foreign exchange positions of the Banking Book were open to a minimum extent, and only as a result of the standard operating activities of the Bank. The Bank did not enter into any speculative transactions regarding exchange rate movements for clients or on the Bank's account. During the year 2019, the Bank did not have any speculative foreign exchange positions open in its Trading Book.

When measuring the exchange rate risk of the Banking Book and the Trading Book, Prima banka uses the VaR method on a daily basis at the 99% reliability interval. As at 31 December 2019, the VaR amounted to € (347) (31 December 2018: € (980)).

In addition to monitoring the internal VaR limits, the Bank has defined an internal limit for an individual open position in a given currency in absolute terms and a limit for the sum of absolute values of open positions in absolute terms for all currencies together.

Foreign exchange position of Prima banka as at 31 December 2019:

	EUR	CZK	USD	Other	Total
Assets	4 160 679	418	15 883	1 738	4 178 718
Liabilities and equity	(4 160 865)	(400)	(15 782)	(1 671)	(4 178 718)
<b>Net balance sheet foreign exchange position</b>	<b>(186)</b>	<b>18</b>	<b>101</b>	<b>67</b>	<b>0</b>
Off-balance sheet assets	3 675 826	2	2	1	3 675 831
Off-balance sheet liabilities	(389 040)	0	(528)	(3)	(389 571)
<b>Net off-balance sheet foreign exchange position</b>	<b>3 286 786</b>	<b>2</b>	<b>(526)</b>	<b>(2)</b>	<b>3 286 260</b>
<b>Net foreign exchange position</b>	<b>3 286 600</b>	<b>20</b>	<b>(425)</b>	<b>65</b>	<b>3 286 261</b>

Foreign exchange position of Prima banka as at 31 December 2018:

	EUR	CZK	USD	Other	Total
Assets	3 581 607	2 085	14 392	1 962	3 600 046
Liabilities and equity	(3 581 607)	(2 074)	(14 403)	(1 961)	(3 600 046)
<b>Net balance sheet foreign exchange position</b>	<b>(0)</b>	<b>11</b>	<b>(11)</b>	<b>1</b>	<b>1</b>
Off-balance sheet assets	3 115 804	3	3	1	3 115 810
Off-balance sheet liabilities	(456 279)	0	(3 770)	(3)	(460 052)
<b>Net off-balance sheet foreign exchange position</b>	<b>2 659 525</b>	<b>3</b>	<b>(3 767)</b>	<b>(2)</b>	<b>2 655 758</b>
<b>Net foreign exchange position</b>	<b>2 659 525</b>	<b>14</b>	<b>(3 779)</b>	<b>(1)</b>	<b>2 655 759</b>

Based on back testing, Prima banka compares estimated VaR with the change to the fair value of the instruments on a daily basis and evaluates back testing results once a year. Prima banka compares the individual limit of an open position in a given currency in absolute terms with the open FX position on a daily basis.

The Bank performs stress testing quarterly. The Bank tests euro depreciation and appreciation scenarios against other foreign currencies by 3%, 8%, and 10%. Considering the minimum open foreign exchange positions for individual foreign currencies from the beginning of 2019, the impact of fluctuations in exchange rates on the Bank's profit/loss is insignificant.

To manage its FX position the Bank uses spot deals on the interbank market.

#### **e) Equity Risk**

The Bank's strategy is to not actively trade equity instruments, as evidenced by the size and structure of the equity securities portfolio. In its "Financial assets at fair value through other comprehensive income" portfolio, the Bank records equity securities in the total amount of € 3 100 thousand, which are capital participations in SWIFT LA Hulpe, Belgium and VISA Inc. USA.

#### **f) Commodity Risk**

The Bank is not exposed to commodity risk. In line with the Bank's strategy, the Bank does not carry out transactions with commodities and has no exposure to commodities.

### **3. Operational Risk**

Operational Risk is the risk of financial and non-financial impacts resulting from inadequate or missing internal processes/actions of staff/system or external events. Operational risk includes legal risk but excludes strategy risk.

Prima banka manages operational risks in line with the operational risk management strategy approved by the Bank's Management Board. The operational risk management comprises OR identification, assessment, monitoring and management/mitigation methods. Operational risk management is aimed at optimizing the Bank's risk profile at acceptable costs.

Operational risk is identified using risk analyses when preparing new products, new processes, non-standard transactions, implementing new information technologies/information sources, project management, and business continuity planning. The Bank monitors and analyses key risk indicators and records and analyses all operational risk-related events. Residual risk is identified during the Risk and Control Self-assessment process.

If an operational risk event or another operational risk instance is identified, action plans are usually adopted to eliminate or mitigate the occurrence of operational risk. To mitigate the financial impact of the occurrence of events, the Bank has concluded numerous insurance policies that cover the main risks.

The Bank uses a standardized approach in accordance with the CRR to calculate regulatory capital requirements for operational risk, according to which the requirement is currently € 13 300 thousand, of which the following amounts are attributable to individual business lines: retail banking – € 7 556 thousand, commercial banking – € 3 943 thousand, payment services and settlement – € 990 thousand, other – € 811 thousand. Management measures and implemented systems for operational risk management are adequate for the Bank's strategy and profile.

## 29. Transactions with Related Parties

Under IAS 24 "*Related Party Disclosures*" a related party is a counterparty that:

- Directly or indirectly through one or more intermediaries, has control over or is under joint control with the reporting entity (including parent companies, subsidiaries and fellow subsidiaries);
- Is an associate;
- Is a joint venture;
- Is a member of key management personnel of the reporting entity or its parent company; and
- Is a close member of the family of any individual referred to in letter a) or d).

When considering relations with each related party, attention is paid to the nature of the relation, not only to its legal form. Transactions with related parties were made under standard conditions and at market prices. Included in assets, liabilities, expenses, revenues and off-balance sheet items are the balances with the parent company PENTA INVESTMENTS LIMITED, Cyprus, with other companies of the Penta Investments Group ("Penta Group"), the members of the Board of Directors and Management Board, and other related parties pursuant to IAS 24.

Assets and liabilities concerning related parties as at 31 December 2019:

Balance sheet	Parent Company	Related parties of the Parent Company	Other related parties	Total
Loans and advances to customers	0	104 174	654	104 828
Other assets	0	3 956	0	3 956
<b>Total assets</b>	<b>0</b>	<b>108 130</b>	<b>654</b>	<b>108 784</b>
Due to banks	0	298	0	298
Customer deposits	9	10 539	2 067	12 615
Liabilities from leases	0	871	0	871
Other liabilities	0	318	0	318
<b>Total liabilities and equity</b>	<b>9</b>	<b>12 026</b>	<b>2 067</b>	<b>14 102</b>

Assets and liabilities concerning related parties as at 31 December 2018:

Balance sheet	Parent Company	Related parties of the Parent Company	Other related parties	Total
Loans and advances to customers	0	79 191	577	79 768
Other assets	0	3 371	0	3 371
<b>Total assets</b>	<b>0</b>	<b>82 562</b>	<b>577</b>	<b>83 139</b>
Due to banks	0	614	0	614
Customer deposits	10	26 221	2 706	28 937
Other liabilities	0	1 097	0	1 097
<b>Total liabilities and equity</b>	<b>10</b>	<b>27 932</b>	<b>2 706</b>	<b>30 648</b>

Revenues and expenses concerning related parties as at 31 December 2019:

	Parent Company	Related parties of the Parent Company	Other related parties	Total
Interest and similar income	0	3 213	9	3 222
Interest and similar expense	0	(59)	(13)	(72)
Net fee and commission income	0	100	1	101
Net profit from financial transactions	0	2	0	2
General and administrative expenses	0	(5 182)	(1 928)	(7 110)

## Revenues and expenses concerning related parties as at 31 December 2018:

	Parent Company	Related parties of the Parent Company	Other related parties	Total
Interest and similar income	0	2 409	9	2 418
Interest and similar expense	0	(1)	(19)	(20)
Net fee and commission income	1	166	2	169
Net profit from financial transactions	0	9	0	9
General and administrative expenses	0	(7 025)	(1 522)	(8 547)

## Off-balance sheet liabilities concerning related parties as at 31 December 2019:

	Related parties of the Parent Company	Other related parties	Total
Received collateral from pledge, security and other rights	0	734	734
<b>Off-balance sheet assets</b>	<b>0</b>	<b>734</b>	<b>734</b>
Loan commitments and unused credit facilities	0	0	0
<b>Off-balance sheet liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Off-balance sheet liabilities concerning related parties as at 31 December 2018:

	Related parties of the Parent Company	Other related parties	Total
Received collateral from pledge, security and other rights	0	550	550
<b>Off-balance sheet assets</b>	<b>0</b>	<b>550</b>	<b>550</b>
Loan commitments and unused credit facilities	0	101	101
<b>Off-balance sheet liabilities</b>	<b>0</b>	<b>101</b>	<b>101</b>

**30. Events after the Balance Sheet Date**

Between the balance sheet date and the authorisation date of these financial statements, there were no other significant events that would require any adjustment or additional disclosure.