

# Prima banka Slovensko, a.s.

Interim Separate Financial Statements  
For the 9 Months Ended 30 September 2020

Prepared in Accordance with IAS 34 Interim Financial Reporting  
as Adopted by the European Union

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## I. FINANCIAL STATEMENTS

### Separate Statement of Financial Position

| Assets  | Note      | 30.9.2020        | 31.12.2019       |
|---|-----------|------------------|------------------|
| Cash  |           | 69 204           | 99 048           |
| Financial assets at amortised cost, of which:                     | 1         | 4 335 546        | 4 022 390        |
| Balances with central banks                                       |           | 429 578          | 349 638          |
| Due from banks  |           | 4 836            | 3 851            |
| Loans and advances to customers                                   |           | 3 682 978        | 3 437 837        |
| Debt securities   |           | 218 154          | 231 064          |
| Financial assets held for trading - derivatives                   | 2         | 1                | 103              |
| Financial assets at fair value through other comprehensive income | 3         | 3 058            | 3 100            |
| Non-current tangible assets                                       | 4         | 18 521           | 20 613           |
| Non-current intangible assets                                     | 5         | 1 778            | 1 893            |
| Deferred tax asset  | 6         | 9 432            | 9 432            |
| Other assets  | 7         | 19 267           | 22 139           |
| <b>Assets total</b>   |           | <b>4 456 807</b> | <b>4 178 718</b> |
| <b>Liabilities and equity</b>                                     |           |                  |                  |
| Financial liabilities at amortised cost, of which:                | 8         | 4 042 418        | 3 776 781        |
| Loans and deposits received from central banks                    |           | 0                | 0                |
| Due to banks  |           | 1 356            | 21 341           |
| Customer deposits   |           | 3 537 233        | 3 251 476        |
| Debt securities   |           | 503 829          | 503 964          |
| Liabilities from leasing  | 9         | 7 335            | 7 711            |
| Financial liabilities held for trading - derivatives              | 10        | 150              | 0                |
| Provisions and reserves   | 11        | 8 176            | 14 791           |
| Other liabilities   | 12        | 38 830           | 33 414           |
| <b>Liabilities total</b>  |           | <b>4 096 909</b> | <b>3 832 697</b> |
| Equity (except profit for the current year)                       |           | 345 877          | 328 961          |
| Profit/loss for the current year after tax                        |           | 14 021           | 17 060           |
| <b>Equity total</b>   | <b>13</b> | <b>359 898</b>   | <b>346 021</b>   |
| <b>Liabilities and equity total</b>                               |           | <b>4 456 807</b> | <b>4 178 718</b> |

The notes on pages 7 to 49 are an integral part of these separate financial statements. The separate financial statements were signed and authorised for issue on 30 September 2020:

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

  
**Henrieta Gahérová**  
 Member of Management Board and  
 Chief Product Officer

## Separate Statement of Comprehensive Income

|  | Note      | for 9 months ended |               | for 3 months ended |               |
|--|-----------|--------------------|---------------|--------------------|---------------|
|  |           | 30.9.2020          | 30.9.2019     | 30.9.2020          | 30.9.2019     |
| Interest income  |           | 54 196             | 58 105        | 17 111             | 18 968        |
| Interest expense   |           | (13 153)           | (12 988)      | (4 310)            | (4 465)       |
| <b>Net interest margin</b>   | <b>14</b> | <b>41 043</b>      | <b>45 117</b> | <b>12 801</b>      | <b>14 503</b> |
| Fee and commission income  |           | 24 194             | 20 673        | 8 171              | 7 084         |
| Fee and commission expense   |           | (5 033)            | (4 318)       | (1 847)            | (1 552)       |
| <b>Net fee and commission income</b>   | <b>15</b> | <b>19 161</b>      | <b>16 355</b> | <b>6 324</b>       | <b>5 532</b>  |
| Dividend income  |           | 40                 | 3             | 5                  | 0             |
| Net income from financial transactions                                       | 16        | 764                | 97            | 70                 | 68            |
| Other operating income   | 17        | 224                | 53            | 26                 | (1)           |
| General administrative expenses  | 18        | (38 708)           | (40 964)      | (12 406)           | (14 425)      |
| Contributions to the Resolution Fund and Deposits protection Fund            | 19        | (567)              | (811)         | (189)              | (182)         |
| Depreciation and provisions for assets                                       | 20        | (3 399)            | (3 585)       | (3 399)            | (1 188)       |
| Net allocation to provisions   | 21        | (4 537)            | (3 042)       | (2 338)            | (950)         |
| <b>Result before tax</b>   |           | <b>14 021</b>      | <b>13 223</b> | <b>894</b>         | <b>3 357</b>  |
| <b>Income tax</b>  |           | <b>0</b>           | <b>0</b>      | <b>0</b>           | <b>0</b>      |
| <b>Net result for the current period</b>                                     | <b>22</b> | <b>14 021</b>      | <b>13 223</b> | <b>894</b>         | <b>3 357</b>  |
| <b>Other Comprehensive Income and Loss</b>                                   |           |                    |               |                    |               |
| <b>Items that may be reclassified to the income statement</b>                |           |                    |               |                    |               |
| Financial assets available for sale  |           | 583                | 982           | 106                | 207           |
| Cash flow hedge  |           | (107)              | (133)         | 1                  | (41)          |
| <b>Items that can not be reclassified to the income statement</b>            |           |                    |               |                    |               |
| Equity instruments valued at fair value through another comprehensive income |           | (620)              | 907           | (77)               | 56            |
| <b>Total</b>   | <b>13</b> | <b>(144)</b>       | <b>1 756</b>  | <b>30</b>          | <b>222</b>    |
| <b>Comprehensive income total</b>  |           | <b>13 877</b>      | <b>14 980</b> | <b>924</b>         | <b>3 580</b>  |
| Net profit per share (face value of € 399) in €                              |           | 24.669             | 23.267        | 5.615              | 5.909         |
| Net profit per share (face value of € 67) in €                               |           | 4.142              | 3.907         | 0.943              | 0.992         |
| Net profit per share (face value of € 5) in €                                |           | 0.309              | 0.292         | 0.070              | 0.074         |
| Net profit per share (face value of € 1) in €                                |           | 0.062              | 0.058         | 0.014              | 0.015         |

## Separate Statement of Cash Flows

|  | 30.9.2020       | 30.9.2019       |
|--|-----------------|-----------------|
| <b>Cash flows from operating activities</b>  |                 |                 |
| Profit before tax  | 14 021          | 13 224          |
| Adjustment:  |                 |                 |
| Depreciation and amortisation  | (420)           | 3 585           |
| Loss on property sold  | (157)           | 41              |
| Profit/(loss) of revaluation available for sale financial assets                                   | 583             | 982             |
| Profit/(Loss) of revaluation on financial assets held for trading - derivatives                    | 252             | 115             |
| Profit/(Loss) of revaluation on securing derivatives   | (107)           | (214)           |
| Profit of revaluation on financial assets at fair value through other comprehensive income         | (578)           | 119             |
| Proceeds from shares and equity interests  | (40)            | (3)             |
| Interest expense   | 13 153          | 12 988          |
| Interest income  | (54 196)        | (58 105)        |
| Provisions and reserves for losses, net  | (9)             | 3 780           |
| Net loss on written off receivables  | (1 027)         | (661)           |
| Net profit off postponed assets  | 0               | (77)            |
| Other non-cash transactions  | (622)           | (486)           |
| <b>Net cash flows from operating activities before changes in operating assets and liabilities</b> | <b>(29 147)</b> | <b>(24 712)</b> |
| <b>Changes in operating assets</b>   |                 |                 |
| Due to the NBS   | (88 697)        | 51 302          |
| Interbank loans and advances   | 352             | 370             |
| Loans and advances to customers  | (249 626)       | (308 875)       |
| Other assets   | 2 910           | (8 381)         |
| <b>Changes in operating liabilities</b>  |                 |                 |
| Loans received from the central banks  | 0               | (80 000)        |
| Due to other banks   | (19 944)        | 45 492          |
| Customer deposits  | 283 278         | 204 646         |
| Debt Securities  | 0               | (104)           |
| Leasing  | 0               | 8 261           |
| Other liabilities  | 5 416           | 8 403           |
| Interest paid  | (10 850)        | (11 078)        |
| Interest received  | 55 578          | 45 844          |
| <b>Net cash flows from operating activities</b>  | <b>(50 730)</b> | <b>(68 832)</b> |
| <b>Cash flows from investment activities</b>   |                 |                 |
| Purchase of non-current tangible and intangible assets   | 2 408           | (10 496)        |
| Proceeds from sale of non-current tangible and intangible assets                                   | 0               | 0               |
| Proceeds from financial assets at amortised cost – debt securities                                 | 11 000          | 53 840          |
| Proceeds from postponed assets   | 0               | 77              |
| Proceeds from shares and equity interests  | 40              | 3               |
| <b>Net cash flows from investment activities</b>   | <b>13 448</b>   | <b>43 424</b>   |
| <b>Net cash flows from financing activities</b>  |                 |                 |
| <b>Net increase/(decrease) in cash flows</b>   | <b>(37 282)</b> | <b>(25 408)</b> |
| Cash and cash equivalents as the beginning of year (Note 23)                                       | 130 644         | 119 661         |
| Cash and cash equivalents as the end of year (Note 23)   | 93 362          | 94 253          |

### 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>1.1.2019</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/settlement of profit from previous years        |                |                     | 2 202              |                     |                      | 19 811           | (22 013)      | 0              |
| Results for 9 months 2019                                    |                |                     |                    |                     |                      |                  | 13 224        | 13 224         |
| Profit on revaluation of available-for-sale financial assets |                |                     |                    |                     | 982                  |                  |               | 982            |
| Cash flow hedge  |                |                     |                    |                     | (133)                |                  |               | (113)          |
| Revaluation of equity instruments                            |                |                     |                    |                     | 907                  |                  |               | 907            |
| Share capital - repurchase of own shares                     | (210)          |                     |                    |                     |                      |                  |               | (210)          |
| Share premium - own shares                                   |                | (112)               |                    |                     |                      |                  |               | (112)          |
| <b>30.9.2019</b>   | <b>226 563</b> | <b>71 078</b>       | <b>6 439</b>       | <b>54 078</b>       | <b>917</b>           | <b>(30 868)</b>  | <b>13 224</b> | <b>341 431</b> |
| <b>1.1.2020</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> |
| Distribution of profit/(loss) from previous years            |                |                     | 1 706              |                     |                      | 15 354           | (17 060)      | 0              |
| Results for 6 months 2020                                    |                |                     |                    |                     |                      |                  | 14 021        | 14 021         |
| Profit on revaluation of available-for-sale financial assets |                |                     |                    |                     | 583                  |                  |               | 583            |
| Cash flow hedge  |                |                     |                    |                     | (107)                |                  |               | (107)          |
| Revaluation of equity instruments                            |                |                     |                    |                     | (620)                |                  |               | (620)          |
| <b>30.9.2020</b>   | <b>226 773</b> | <b>71 190</b>       | <b>8 145</b>       | <b>54 078</b>       | <b>1 205</b>         | <b>(15 514)</b>  | <b>14 021</b> | <b>359 898</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 any branches abroad and is not an unlimited guarantor in any other business entity and has 123 branches as at 30 September 2020 (31 December 2019: 123 branches).

**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, until 31 March 2020  
Peter Novák

**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 % |               |
|-----------------------------------|-----------------------------|---------------|
|                                   | 30.9.2020                   | 31.12.2019    |
| PENTA INVESTMENTS LIMITED, Cyprus | 99,55                       | 99,49         |
| Shareholders under 1%             | 0,45                        | 0,51          |
| <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 30 September 2020 and 31 December 2019 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 | SK11100013671 | 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**

|   | 30.9.2020  |
|---|------------|
| <b>Average number of employees, of which:</b> | <b>836</b> |
| Average number of managers                    | 5          |

As at 30 September 2020, Prima banka had 832 employees (31 December 2019: 865).



## 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 2019) were approved and authorised for issue on 4 March 2020 and subsequently approved on 23 April 2020 by the General Meeting.

### Basis of Presentation

The separate financial statements of the Bank (the "financial statements") for the 9 months ended 30 September 2020 and comparative data for the 9 months ended 30 September 2019 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 2020.

### 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 have been prepared under the historical cost convention; except for the following cases, which are measured at fair value:

- Financial assets/liabilities held to trading, including derivatives,
- Financial assets/liabilities at fair value through profit or loss,
- Financial assets at fair value through other comprehensive income.

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, i.e. 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, i.e. 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, i.e. 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 30 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 Loans Committee 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 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:

|                                     | <b>Depreciation/Amortisation Period<br/>in Years</b> |
|-------------------------------------|--|
| 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 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, i.e. 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 30 September 2020.

##### **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**

| 30.9.2020  | 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>429 578</b>        | <b>429 578</b>   | 0             | 0              |
| Current accounts                                     | 19 991                | 19 991           | 0             | 0              |
| Compulsory minimum reserves                          | 409 587               | 409 587          | 0             | 0              |
| <b>Due from banks</b>                                | <b>4 836</b>          | <b>4 836</b>     | 0             | 0              |
| <b>Loans and advances to customers*, of which:</b>   | <b>3 829 816</b>      | <b>3 682 191</b> | <b>43 170</b> | <b>104 455</b> |
| Public administration                                | 139 635               | 137 514          | 1 899         | 222            |
| Retail clients                                       | 3 173 080             | 3 129 724        | 4 768         | 38 588         |
| of which: Individuals                                | 3 056 237             | 3 016 285        | 4 702         | 35 250         |
| Other clients  | 517 101               | 414 953          | 36 503        | 65 645         |
| <b>Debt securities, of which:</b>                    | <b>220 739</b>        | <b>200 661</b>   | <b>20 078</b> | <b>0</b>       |
| Banks  | 10 003                | 10 003           | 0             | 0              |
| Public administration                                | 150 976               | 150 976          | 0             | 0              |
| Other clients  | 59 760                | 39 682           | 20 078        | 0              |
| <b>Total</b>   | <b>4 484 969</b>      | <b>4 317 266</b> | <b>63 248</b> | <b>104 455</b> |
| Provisions- Loans and advances to customers          | (146 839)             | (47 111)         | (9 083)       | (90 645)       |
| Provisions- Debt securities                          | (2 585)               | (472)            | (2 113)       | 0              |
| <b>Net carrying amount</b>                           | <b>4 335 545</b>      | <b>4 269 683</b> | <b>52 052</b> | <b>13 810</b>  |

| 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          | 0             | 0              |
| 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>     | 0             | 0              |
| <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>  |

\*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.

**Gross book value transfers between levels**

| Loans and advances to customers | 30.9.2020       |                 |                 | 31.12.2019      |                 |                 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                 | Move to level 1 | Move to level 2 | Move to level 3 | Move to level 1 | Move to level 2 | Move to level 3 |
| <b>Level 1</b>                  | <b>12 159</b>   | <b>(3 485)</b>  | <b>(3 191)</b>  | <b>4 685</b>    | <b>(13 955)</b> | <b>(5 745)</b>  |
| Public administration           | 0               | (1 062)         | 0               | 0               | 0               | 0               |
| Retail clients                  | 11 987          | (2 325)         | (3 186)         | 4 428           | (11 185)        | (4 944)         |
| Other clients                   | 172             | (98)            | (5)             | 257             | (2 770)         | (801)           |
| <b>Level 2</b>                  | <b>(12 159)</b> | <b>5 345</b>    | <b>(9 494)</b>  | <b>(4 399)</b>  | <b>14 209</b>   | <b>(3 537)</b>  |
| Public administration           | 0               | 1 618           | 0               | 0               | 0               | 0               |
| Retail clients                  | (11 987)        | 3 629           | (3 548)         | (4 142)         | 11 209          | (3 204)         |
| Other clients                   | (172)           | 98              | (5 946)         | (257)           | 3 000           | (332)           |
| <b>Level 3</b>                  | <b>0</b>        | <b>(1 860)</b>  | <b>12 685</b>   | <b>(286)</b>    | <b>(254)</b>    | <b>9 282</b>    |
| Public administration           | 0               | (556)           | 0               | 0               | 0               | 0               |
| Retail clients                  | 0               | (1 304)         | 6 734           | (286)           | (24)            | 8 148           |
| Other clients                   | 0               | 0               | 5 951           | 0               | (230)           | 1 134           |

**Provisions for loans and advances to customers**

| Provisions for loans and advances to customers | 1.1.2020         | 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 proviso due to depreciation | 30.9.2020        |
|--|------------------|--|---|--|--------------------------|-----------------|---------------------------|---|------------------|
| <b>Stage 1</b>                                 | <b>(39 851)</b>  | <b>(6 872)</b>                                 | <b>3 843</b>                                | <b>(6 030)</b>                           | <b>1 800</b>             | <b>0</b>        | <b>0</b>                  | <b>0</b>                                | <b>(47 111)</b>  |
| Public administration                          | (7)              | (1)  | 0   | (40)                                     | 44                       | 0               | 0                         | 0                                       | (4)              |
| Retail clients                                 | (31 418)         | (6 395)  | 3 590                                       | (7 552)                                  | 1 730                    | 0               | (10)                      | 0                                       | (40 055)         |
| Other clients                                  | (8 427)          | (476)  | 253   | 1 562                                    | 26                       | 0               | 10                        | 0                                       | (7 052)          |
| <b>Stage 2</b>                                 | <b>(12 596)</b>  | <b>(618)</b>                                   | <b>430</b>                                  | <b>721</b>                               | <b>2 981</b>             | <b>0</b>        | <b>0</b>                  | <b>0</b>                                | <b>(9 083)</b>   |
| Public administration                          | 0                | (20)   | 0   | (36)                                     | (155)                    | 0               | 0                         | 0                                       | (212)            |
| Retail clients                                 | (4 480)          | (44)   | 277   | 792                                      | 2 451                    | 0               | 0                         | 0                                       | (1 004)          |
| Other clients                                  | (8 117)          | (554)  | 153   | (34)                                     | 685                      | 0               | 0                         | 0                                       | (7 867)          |
| <b>Stage 3</b>                                 | <b>(97 427)</b>  | <b>(1 786)</b>                                 | <b>3 776</b>                                | <b>948</b>                               | <b>(4 781)</b>           | <b>0</b>        | <b>9</b>                  | <b>8 617</b>                            | <b>(90 645)</b>  |
| Public administration                          | (737)            | 0  | 209   | 306                                      | 111                      | 0               | 0                         | 0                                       | (111)            |
| Retail clients                                 | (33 550)         | (435)  | 1 897                                       | 1 499                                    | (4 182)                  | 0               | 9                         | 4 722                                   | (30 040)         |
| Other clients                                  | (63 141)         | (1 351)  | 1 670                                       | (857)                                    | (710)                    | 0               | 0                         | 3 894                                   | (60 495)         |
| <b>Total</b>                                   | <b>(149 874)</b> | <b>(9 276)</b>                                 | <b>8 049</b>                                | <b>(4 361)</b>                           | <b>0</b>                 | <b>0</b>        | <b>9</b>                  | <b>8 617</b>                            | <b>(146 839)</b> |

| 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 proviso 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> |

**Provisions transfer between levels**

| Provisions for loans and advances to customers | 30.9.2020       |                 |                 | 31.12.2019      |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|  | Move to level 1 | Move to level 2 | Move to level 3 | Move to level 1 | Move to level 2 | Move to level 3 |
| <b>Stage 1</b>                                 | <b>(771)</b>    | <b>613</b>      | <b>1 957</b>    | <b>4 685</b>    | <b>(13 955)</b> | <b>(5 745)</b>  |
| Public administration                          | 0               | 44              | 0               | 0               | 0               | 0               |
| Retail clients                                 | (765)           | 543             | 1 952           | 4 428           | (11 185)        | (4 944)         |
| Other clients                                  | (6)             | 26              | 5               | 257             | (2 770)         | (801)           |
| <b>Stage 2</b>                                 | <b>771</b>      | <b>(810)</b>    | <b>3 021</b>    | <b>(4 399)</b>  | <b>14 209</b>   | <b>(3 537)</b>  |
| Public administration                          | 0               | (155)           | 0               | 0               | 0               | 0               |
| Retail clients                                 | 765             | (629)           | 2 316           | (4 142)         | 11 209          | (3 204)         |
| Other clients                                  | 6               | (26)            | 705             | (257)           | 3 000           | (332)           |
| <b>Stage 3</b>                                 | <b>0</b>        | <b>197</b>      | <b>(4 978)</b>  | <b>(286)</b>    | <b>(254)</b>    | <b>9 282</b>    |
| Public administration                          | 0               | 111             | 0               | 0               | 0               | 0               |
| Retail clients                                 | 0               | 86              | (4 268)         | (286)           | (24)            | 8 148           |
| Other clients                                  | 0               | 0               | (710)           | 0               | (230)           | 1 134           |

**Provisions for debt securities**

| Debt securities | 1.1.2020       | 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 | 30.9.2020      |
|-----------------|----------------|--|---|--|--------------------------|---|----------------|
| Stage 1         | 0              | 0  | 0   | (472)                                    | 0                        | 0   | (472)          |
| Stage 2         | (2 113)        | 0  | 0   | 0  | 0                        | 0   | (2 113)        |
| Stage 3         | 0              | 0  | 0   | 0  | 0                        | 0   | 0              |
| <b>Total</b>    | <b>(2 113)</b> | <b>0</b>                                       | <b>0</b>                                    | <b>(472)</b>                             | <b>0</b>                 | <b>0</b>                                  | <b>(2 585)</b> |

| 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> |

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

|  | 30.9.2020        | 31.12.2019       |
|--|------------------|------------------|
| <b>Balances with central banks</b>     | <b>429 578</b>   | <b>349 638</b>   |
| Slovak Republic                        | 429 578          | 349 638          |
| <b>Due from banks</b>                  | <b>4 836</b>     | <b>3 851</b>     |
| Slovak Republic                        | 5                | 5                |
| EU Member States                       | 4 116            | 2 828            |
| Other countries                        | 715              | 1 018            |
| <b>Loans and advances to customers</b> | <b>3 682 978</b> | <b>3 437 837</b> |
| Slovak Republic                        | 3 479 544        | 3 255 193        |
| EU Member States                       | 203 355          | 182 576          |
| Other countries                        | 79               | 67               |
| <b>Debt securities</b>                 | <b>218 154</b>   | <b>231 064</b>   |
| Slovak Republic                        | 100 335          | 165 287          |
| EU Member States                       | 117 820          | 65 777           |
| <b>Total</b>                           | <b>4 335 546</b> | <b>4 022 390</b> |

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

|  | 30.9.2020        | 31.12.2019       |
|--|------------------|------------------|
| <b>Balances with central banks</b>     | <b>429 578</b>   | <b>349 638</b>   |
| In euro                                | 429 578          | 349 638          |
| <b>Due from banks</b>                  | <b>4 836</b>     | <b>3 851</b>     |
| In euro                                | 2 772            | 1 301            |
| In foreign currencies                  | 2 064            | 2 550            |
| <b>Loans and advances to customers</b> | <b>3 682 978</b> | <b>3 437 837</b> |
| In euro                                | 3 682 978        | 3 437 835        |
| In foreign currencies                  | 0                | 2                |
| <b>Debt securities</b>                 | <b>218 154</b>   | <b>231 064</b>   |
| In euro                                | 214 528          | 227 273          |
| In foreign currencies                  | 3 626            | 3 791            |
| <b>Total</b>                           | <b>4 335 546</b> | <b>4 022 390</b> |

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

## 2. Financial Derivatives - assets

| Assets   | 30.9.2020 |               | 31.12.2019 |               |
|--|-----------|---------------|------------|---------------|
|  | Fair      | Nominal Value | Fair       | Nominal       |
| <b>Financial assets held for trading – derivatives</b> |           |               |            |               |
| Currency derivatives                                   | 1         | 12 360        | 103        | 11 960        |
| <b>Total</b>   | <b>1</b>  | <b>12 360</b> | <b>103</b> | <b>11 960</b> |
| <b>Hedging derivatives</b>                             |           |               |            |               |
| Interest rate swap                                     | 0         | 0             | 0          | 0             |
| <b>Total</b>   | <b>0</b>  | <b>0</b>      | <b>0</b>   | <b>0</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 30.9.2020 |               |              | Equity share at 31.12.2019 |               |              |
|-------------------------|---------------------------|---------------|--------------|----------------------------|---------------|--------------|
|                         | (%)                       | 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                     | 3 042         | 3 042        | 0,000                      | 3 084         | 3 084        |
| <b>Total</b>            | <b>x</b>                  | <b>3 058</b>  | <b>3 058</b> | <b>x</b>                   | <b>3 100</b>  | <b>3 100</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 € 3 042 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 30 September 2020:

|  | 1.1.2020        | Increase       | Decrease       | Other movements | 30.9.2020       |
|--|-----------------|----------------|----------------|-----------------|-----------------|
| Land, buildings and structures                                     | 45 718          | 1 336          | (5 282)        | 0               | 41 772          |
| Information technologies   | 10 811          | 30             | (2)            | 0               | 10 839          |
| Other non-current tangible assets                                  | 19 320          | 787            | (1 551)        | 0               | 18 556          |
| Leasing  | 9 755           | 1 217          | (44)           | 0               | 10 928          |
| <b>Non-current tangible assets</b>                                 | <b>85 604</b>   | <b>3 370</b>   | <b>(6 879)</b> | <b>0</b>        | <b>82 095</b>   |
| Accumulated depreciation and provisions - buildings and structures | (34 281)        | (2 268)        | 4 875          | 0               | (31 674)        |
| Accumulated depreciation – information technologies                | (10 405)        | (186)          | 0              | 0               | (10 591)        |
| Accumulated depreciation - other non-current tangible assets       | (18 216)        | (952)          | 1 517          | 0               | (17 651)        |
| Accumulated depreciation - Leasing                                 | (2 089)         | (1 613)        | 44             | 0               | (3 658)         |
| <b>Accumulated depreciation and provisions</b>                     | <b>(64 991)</b> | <b>(5 019)</b> | <b>6 436</b>   | <b>0</b>        | <b>(63 574)</b> |
| <b>Net book value</b>  | <b>20 613</b>   | <b>(1 649)</b> | <b>(443)</b>   | <b>0</b>        | <b>18 521</b>   |

## 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  | 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                                 | (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>   |

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

As at 30 September 2020, Prima banka did not record any obligations from contracts for the purchase of non-current tangible assets (31 December 2019: € 0).

**Insurance Coverage**

A set of immovable assets has insurance coverage of up to € 44 835 thousand and a set of movable assets with insurance coverage of up to € 30 724 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 30 September 2020:

|  | 1.1.2020        | Increase     | Decrease    | 30.9.2020       |
|--|-----------------|--------------|-------------|-----------------|
| Software   | 19 179          | 149          | 0           | 19 328          |
| Other non-current intangible assets                            | 24 449          | 65           | (13)        | 24 501          |
| <b>Non-current intangible assets</b>                           | <b>43 628</b>   | <b>214</b>   | <b>(13)</b> | <b>43 829</b>   |
| Accumulated amortisation - software                            | (18 946)        | (104)        | 0           | (19 050)        |
| Accumulated amortisation - other non-current intangible assets | (22 789)        | (282)        | 70          | (23 001)        |
| <b>Accumulated amortisation and provisions</b>                 | <b>(41 735)</b> | <b>(386)</b> | <b>70</b>   | <b>(42 051)</b> |
| <b>Net book value</b>  | <b>1 893</b>    | <b>(172)</b> | <b>57</b>   | <b>1 778</b>    |

## 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>    |

**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 30 September 2020, Prima banka did not record any liabilities under agreements to purchase non-current intangible assets (31 December 2019: € 0).



**6. Deferred Tax Assets**

|                    | 30.9.2020    | 31.12.2019   |
|--------------------|--------------|--------------|
| Deferred tax asset | 9 432        | 9 432        |
| <b>Total</b>       | <b>9 432</b> | <b>9 432</b> |

**7. Other Assets**

|                                       | 30.9.2020     | 31.12.2019    |
|---------------------------------------|---------------|---------------|
| Assets, of which:                     | 18 067        | 18 074        |
| Amounts due from assigned receivables | 6 778         | 6 755         |
| Receivables from clients' derivatives | 2 696         | 2 705         |
| Cash collateral                       | 8 307         | 8 613         |
| Others receivables                    | 286           | 0             |
| Other assets                          | 4 410         | 7 820         |
| <b>Total</b>                          | <b>22 477</b> | <b>25 894</b> |
| Provisions                            | (3 210)       | (3 755)       |
| <b>Net carrying amount</b>            | <b>19 267</b> | <b>22 139</b> |

**8. Financial Liabilities at Amortised Cost**

|                                      | 30.9.2020        | 31.12.2019       |
|--------------------------------------|------------------|------------------|
| <b>Balances with central banks</b>   | <b>0</b>         | <b>0</b>         |
| Loans received                       | 0                | 0                |
| <b>Due from banks</b>                | <b>1 356</b>     | <b>21 341</b>    |
| Current accounts and demand payables | 1 356            | 1 300            |
| Term deposits                        | 0                | 20 041           |
| <b>Customer deposits</b>             | <b>3 537 233</b> | <b>3 251 476</b> |
| Current accounts                     | 2 094 347        | 1 770 225        |
| Term deposits                        | 1 331 194        | 1 376 578        |
| Saving deposits                      | 111 447          | 104 343          |
| Received loans                       | 245              | 330              |
| <b>Debt securities</b>               | <b>503 829</b>   | <b>503 964</b>   |
| Mortgage debentures                  | 1 963            | 1 908            |
| Covered bonds                        | 501 866          | 502 056          |
| <b>Total</b>                         | <b>4 042 418</b> | <b>3 776 781</b> |

As at 30 September 2020, 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 € 70 000 thousand (31 December 2019: € 200 900 thousand). The bonds may be used as collateral for funds received from the NBS for liquidity management risk purpose (collateral as at 30 September 2020: € 0).

As at 30 September 2020, 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:

|                           | 30.9.2020        | 31.12.2019       |
|---------------------------|------------------|------------------|
| Public administration     | 557 811          | 391 550          |
| Retail clients, of which: | 2 679 846        | 2 555 777        |
| Individuals               | 2 466 871        | 2 360 414        |
| Other clients             | 299 576          | 304 149          |
| <b>Total</b>              | <b>3 537 233</b> | <b>3 251 476</b> |

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

|                                    | 30.9.2020        | 31.12.2019       |
|------------------------------------|------------------|------------------|
| <b>Balances with central banks</b> | <b>0</b>         | <b>0</b>         |
| Slovak Republic                    | 0                | 0                |
| <b>Due from banks</b>              | <b>1 356</b>     | <b>21 341</b>    |
| Slovak Republic                    | 354              | 20 339           |
| EU Member States                   | 1 002            | 1 002            |
| <b>Customer deposits</b>           | <b>3 537 233</b> | <b>3 251 476</b> |
| Slovak Republic                    | 3 518 586        | 3 230 443        |
| EU Member States                   | 12 870           | 15 555           |
| Other countries                    | 5 777            | 5 478            |
| <b>Debt securities</b>             | <b>503 829</b>   | <b>503 964</b>   |
| Slovak Republic                    | 503 829          | 503 964          |
| <b>Total</b>                       | <b>4 042 418</b> | <b>3 776 781</b> |

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

|                                    | 30.9.2020        | 31.12.2019       |
|------------------------------------|------------------|------------------|
| <b>Balances with central banks</b> | <b>0</b>         | <b>0</b>         |
| In euro                            | 0                | 0                |
| <b>Due from banks</b>              | <b>1 356</b>     | <b>21 341</b>    |
| In euro                            | 1 356            | 21 204           |
| In foreign currency                | 0                | 137              |
| <b>Customer deposits</b>           | <b>3 537 233</b> | <b>3 251 476</b> |
| In euro                            | 3 534 639        | 3 247 898        |
| In foreign currency                | 2 594            | 3 578            |
| <b>Debt securities</b>             | <b>503 829</b>   | <b>503 964</b>   |
| In euro                            | 503 829          | 503 964          |
| <b>Total</b>                       | <b>4 042 418</b> | <b>3 776 781</b> |

As at 30 September 2020, 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                       | 1 963           |
| SK4000016069 | 1.10.2019     | 1.10.2026     | ročne                      | 0,01 %        | 100 000,00        | 5 000                       | 501 866         |
| <b>Total</b> |               |               |                            |               |                   |                             | <b>503 829</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>  |

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

|                         | 30.9.2020    | 31.12.2019   |
|-------------------------|--------------|--------------|
| Liabilities from leases | 7 335        | 7 711        |
| <b>Total</b>            | <b>7 335</b> | <b>7 711</b> |

**10. Financial Derivatives - Liabilities**

| Amount of liabilities                                      | 30.9.2020  |               | 31.12.2019 |               |
|--|------------|---------------|------------|---------------|
|  | Fair Value | Nominal Value | Fair Value | Nominal Value |
| <b>Financial liabilities Held for Trading- derivatives</b> |            |               |            |               |
| Currency derivatives                                       | 58         | 12 513        | 0          | 11 880        |
|  | <b>58</b>  | <b>12 513</b> | <b>0</b>   | <b>11 880</b> |
| <b>Hedging derivatives</b>                                 |            |               |            |               |
| Interest rate  | 0          | 0             | 0          | 0             |
| <b>Total</b>   | <b>0</b>   | <b>0</b>      | <b>0</b>   | <b>0</b>      |

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

**11. Provisions and Reserves**

|  | 30.9.2020    | 31.12.2019    |
|--|--------------|---------------|
| Provisions for litigation                    | 4 695        | 10 131        |
| Provisions for restructuring                 | 330          | 952           |
| Provisions for off-balance sheet liabilities | 3 133        | 3 553         |
| Other reserves                               | 18           | 155           |
| <b>Total</b>                                 | <b>8 176</b> | <b>14 791</b> |

The Bank expects the remaining provision for restructuring to be used in 2021. 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 30 September 2020:

|   | 1.1.2020      | Allocation   | Release         | Use          | 30.9.2020    |
|---|---------------|--------------|-----------------|--------------|--------------|
| Provisions for litigation                   | 10 131        | 279          | (5 678)         | (37)         | 4 695        |
| Provisions for restructuring                | 952           | 0            | (622)           | 0            | 330          |
| Provision for off-balance sheet liabilities | 3 553         | 3 765        | (4 185)         | 0            | 3 133        |
| Other reserves (executions)                 | 155           | 0            | 0               | (137)        | 18           |
| <b>Total</b>                                | <b>14 791</b> | <b>4 044</b> | <b>(10 485)</b> | <b>(174)</b> | <b>8 176</b> |

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> |

**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. At the end of the 3rd quarter of 2020, the Bank received a decision on the termination of the legal dispute, for which was recorded a provision in the amount of € 5 678 thousand. As at 30 September 2020, the bank released this provision. The total provision for litigation amounts to € 4 695 thousand as at 30 September 2020, and represents principal and default interest (31 December 2019: € 10 131 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**

|   | 30.9.2020     | 31.12.2019    |
|---|---------------|---------------|
| Accruals and deferrals                              | 5 284         | 81            |
| Reserves and other payables                         | 12 326        | 15 529        |
| Settlement with employees,<br>of which: social fund | 888<br>52     | 923<br>60     |
| Other payables                                      | 19 979        | 16 456        |
| State budget clearing account                       | 353           | 425           |
| <b>Total</b>  | <b>38 830</b> | <b>33 414</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 30 September 2020 and as at 31 December 2019 is presented in the following table:

| Social fund                | 30.9.2020 | 31.12.2019 |
|----------------------------|-----------|------------|
| Balance as at 1.1.         | 60        | 60         |
| Allocation (from expenses) | 106       | 156        |
| Usage: catering allowance  | (114)     | (156)      |
| <b>Total</b>               | <b>52</b> | <b>60</b>  |

**13. Equity**

|  | 30.9.2020      | 31.12.2019     |
|--|----------------|----------------|
| Share capital                          | 226 773        | 226 773        |
| Share premium funds                    | 71 190         | 71 190         |
| Legal reserve fund                     | 8 145          | 6 439          |
| Other capital funds                    | 54 078         | 54 078         |
| Accumulated other comprehensive income | 1 205          | 1 349          |
| Profit/(loss) from previous years      | (15 514)       | (30 868)       |
| Profit/(loss) for the current year     | 14 021         | 17 060         |
| <b>Total</b>                           | <b>359 898</b> | <b>346 021</b> |

**Share Capital**

| Face value of shares                             | 30.9.2020          |                | 31.12.2019         |                |
|--|--------------------|----------------|--------------------|----------------|
|  | 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**

|   | 30.9.2020    | 31.12.2019   |
|---|--------------|--------------|
| Financial assets at fair value through other comprehensive income | 1 671        | 2 291        |
| Available-for-sale securities                                     | (462)        | (1 045)      |
| Cash flow hedge   | (4)          | 103          |
| <b>Total</b>  | <b>1 205</b> | <b>1 349</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 as at 23 April 2020.

#### 14. Net Interest Margin

|  | 30.9.2020       | 30.9.2019       |
|--|-----------------|-----------------|
| <b>Interest income and similar income on:</b>      | <b>54 196</b>   | <b>58 105</b>   |
| Financial assets at amortised cost, of which:      |                 |                 |
| Balances with the central banks                    | (647)           | (155)           |
| Due from banks                                     | (2)             | 16              |
| Loans and advances to customers                    | 50 152          | 53 500          |
| Debt securities                                    | 4 693           | 4 753           |
| Hedging derivatives                                | 0               | (9)             |
| <b>Interest expense and similar expense for:</b>   | <b>(13 153)</b> | <b>(12 988)</b> |
| Financial liabilities at amortised cost, of which: |                 |                 |
| Due to banks                                       | (35)            | (155)           |
| Customer deposits                                  | (12 854)        | (12 720)        |
| Debt securities                                    | (264)           | (65)            |
| Hedging derivatives                                | 0               | (48)            |
| <b>Net Interest Margin</b>                         | <b>41 043</b>   | <b>45 117</b>   |

#### 15. Net Fee and Commission Income

|  | 30.9.2020      | 30.9.2019      |
|--|----------------|----------------|
| <b>Fee and commission income on:</b>   | <b>24 194</b>  | <b>20 673</b>  |
| Payment services                       | 19 345         | 16 391         |
| Credit activity                        | 3 507          | 3 148          |
| Transactions with securities           | 0              | 1              |
| Other banking services                 | 1 342          | 1 133          |
| <b>Fee and commission expense for:</b> | <b>(5 033)</b> | <b>(4 318)</b> |
| Payment services                       | (684)          | (883)          |
| Credit activity                        | 0              | (2)            |
| Transactions with securities           | (93)           | (70)           |
| Other banking services                 | (4 256)        | (3 363)        |
| <b>Net Fee and Commission Income</b>   | <b>19 161</b>  | <b>16 355</b>  |

#### 16. Profit from Financial Transactions

|  | 30.9.2020  | 30.9.2019 |
|--|------------|-----------|
| Net income (loss) from financial assets held for trading – derivatives                         | 387        | (701)     |
| Net loss from revaluation of financial assets at fair value through other comprehensive income | 641        | (162)     |
| Net income (loss) from hedging derivatives   | 0          | 26        |
| Foreign exchange differences   | (264)      | 934       |
| <b>Net profit from financial transactions</b>  | <b>764</b> | <b>97</b> |

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

|   | <b>30.9.2020</b> | <b>30.9.2019</b> |
|---|------------------|------------------|
| Net income (loss) on the sale of non-current assets | 157              | (41)             |
| Lease income  | 48               | 62               |
| Other income from non-banking activities            | 19               | 32               |
| <b>Other operating income</b>                       | <b>224</b>       | <b>53</b>        |

**18. General and Administrative Expenses**

|   | <b>30.9.2020</b> | <b>30.9.2019</b> |
|---|------------------|------------------|
| <b>Personnel expenses</b>                   | <b>(18 769)</b>  | <b>(18 272)</b>  |
| Wages and salaries*                         | (14 193)         | (13 210)         |
| Social expenses                             | (4 679)          | (4 424)          |
| Other personnel costs                       | 103              | (638)            |
| <b>Other administrative expenses</b>        | <b>(19 939)</b>  | <b>(22 692)</b>  |
| IT costs                                    | (4 130)          | (4 177)          |
| Marketing, advertising and other services   | (4 471)          | (4 423)          |
| Costs of audit and related services**       | 0                | (30)             |
| Leases                                      | (184)            | (172)            |
| Other purchased outputs and services        | (8 660)          | (8 605)          |
| Special levy of banking institutions        | (7 840)          | (4 984)          |
| Supervision of Central Banks                | (227)            | (302)            |
| Creation (use) of provisions for litigation | 5 436            | 1                |
| Creation (use) of other provisions          | 137              | 0                |
| <b>General administrative costs</b>         | <b>(38 708)</b>  | <b>(40 964)</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 € 92 thousand as at 30 September 2020 (30 September 2019: € 98 thousand).

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.

The Bank reports Special levy of banking institutions and Supervision of Central Banks' fee as part of the General and administrative expenses as at 30 September 2020 (the expenses were included in "Specific contributions of selected financial institutions" as at 30 September 2019).

**19. Contributions to the Resolution fund and Deposits protection fund**

|  | <b>30.9.2020</b> | <b>30.9.2019</b> |
|--|------------------|------------------|
| Resolution fund  | (355)            | (545)            |
| Deposits Protection Fund   | (212)            | (266)            |
| <b>Specific Contributions of Selected Financial Institutions</b> | <b>(567)</b>     | <b>(811)</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.

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.

The Bank reports contributions to the Resolution fund and Deposits protection fund separated from the other contributions as at 30 September 2020 (those contributions were included in "Specific contributions of selected financial institutions" as at 30 September 2019).

## 20. Depreciation and provisions of assets

|                                   | 30.9.2020      | 30.9.2019      |
|-----------------------------------|----------------|----------------|
| Depreciation of tangible assets   | (3 069)        | (3 253)        |
| Amortisation of intangible assets | (330)          | (332)          |
| <b>Total</b>                      | <b>(3 399)</b> | <b>(3 585)</b> |

## 21. Net Allocation to Provisions and Reserves

|   | 30.9.2020      | 30.9.2019      |
|---|----------------|----------------|
| <b>(Allocation) of provisions for financial assets at amortised cost, of which:</b> | <b>(5 984)</b> | <b>(4 243)</b> |
| Loans, advances and other receivables   | (5 512)        | (4 137)        |
| Debt securities   | (472)          | (106)          |
| <b>Allocation to provisions for off-balances sheet exposures</b>                    | <b>420</b>     | <b>463</b>     |
| <b>Written-off and assignment of receivables*</b>                                   | <b>1 027</b>   | <b>738</b>     |
| <b>Net Allocation to Provisions and Reserves</b>                                    | <b>(4 537)</b> | <b>(3 042)</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.

## 22. Net Earnings per Share

|  | 30.9.2020   | 30.9.2019   |
|--|-------------|-------------|
| Net earnings for the current period (€ T)      | 14 021      | 13 224      |
| 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 € | 24.669      | 23.267      |
| Net earnings per share (face value € 67) in €  | 4.142       | 3.907       |
| Net earnings per share (face value € 5) in €   | 0.309       | 0.292       |
| Net earnings per share (face value € 1) in €   | 0.062       | 0.058       |

## 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:

|                                       | 30.9.2020     | 31.12.2019     |
|---------------------------------------|---------------|----------------|
| Cash                                  | 69 204        | 99 048         |
| Balances with central banks           | 19 991        | 28 748         |
| Current accounts in other banks       | 4 167         | 2 762          |
| Term deposits in banks up to 3 months | 0             | 86             |
| <b>Total</b>                          | <b>93 362</b> | <b>130 644</b> |

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

### Off-balance Sheet Assets

|  | 30.9.2020        | 31.12.2019       |
|--|------------------|------------------|
| Receivables from spot transactions                         | 60               | 0                |
| Guarantees received  | 6 861            | 7 057            |
| Received collateral from pledge, security and other rights | 3 872 383        | 3 547 603        |
| <b>Total</b>   | <b>3 879 304</b> | <b>3 554 660</b> |

**Off-balance Sheet Liabilities**

|   | 30.9.2020      | 31.12.2019     |
|---|----------------|----------------|
| Liabilities from spot transactions            | 152            | 0              |
| Guarantees issued                             | 6 365          | 6 134          |
| Loan commitments and unused credit facilities | 120 096        | 167 203        |
| Assets in custody                             | 15 080         | 15 334         |
| <b>Total</b>                                  | <b>141 693</b> | <b>188 671</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 30 September 2020, provisions recorded for off-balance sheet exposures amounted to € 3 133 thousand (31 December 2019: € 3 553 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 30 September 2020:

|  | Up to 1 year  | 1 to 5 years | More than 5 years | Total         |
|--|---------------|--------------|-------------------|---------------|
| <b>Financial assets held for trading – derivatives</b> |               |              |                   |               |
| Currency swaps   | 12 360        | 0            | 0                 | 12 360        |
| <b>Total off-balance sheet assets</b>                  | <b>12 360</b> | <b>0</b>     | <b>0</b>          | <b>12 360</b> |
| Currency swaps   | 12 513        | 0            | 0                 | 12 513        |
| <b>Total off-balance sheet liabilities</b>             | <b>12 513</b> | <b>0</b>     | <b>0</b>          | <b>12 513</b> |
| <b>Net derivatives</b>                                 | <b>(153)</b>  | <b>0</b>     | <b>0</b>          | <b>(153)</b>  |

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>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>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>     |

**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 30 September 2020 (as ta 31 December 2019):

| 30 September 2020   | Level 1  | Level 2   | Level 3      | Total        |
|---|----------|-----------|--------------|--------------|
| Financial assets held for trading: derivatives                    | 0        | 0         | 0            | 0            |
| Financial assets at fair value through other comprehensive income | 0        | 0         | 3 058        | 3 058        |
| <b>Financial assets at fair value total</b>                       | <b>0</b> | <b>0</b>  | <b>3 058</b> | <b>3 058</b> |
| Financial liabilities held for trading: derivatives               | 0        | 58        | 0            | 58           |
| <b>Financial liabilities at fair value total</b>                  | <b>0</b> | <b>58</b> | <b>0</b>     | <b>58</b>    |

| 31 December 2019  | Level 1  | Level 2    | Level 3      | Total        |
|---|----------|------------|--------------|--------------|
| 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            |
| <b>Financial liabilities at fair value total</b>                  | <b>0</b> | <b>0</b>   | <b>0</b>     | <b>0</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 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                                  |
| <b>Market value as at 30 September 2020</b>   | <b>3 058</b>  | <b>0</b>                           |
| Accrued coupon  | 0   | 0                                  |
| <b>Carrying amount as at 30 September 2020</b>  | <b>3 058</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 | (42)  | 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 30 September 2020:

|  | Carrying amount  | Estimated fair value |                |                  |
|--|------------------|----------------------|----------------|------------------|
|  |                  | Level 1              | Level 2        | Level 3          |
| Cash   | 69 204           | 0                    | 69 204         | 0                |
| Financial assets at amortised cost, of which:      | 4 335 546        | 211 136              | 434 465        | 4 064 702        |
| Balances with central banks                        | 429 578          | 0                    | 429 578        | 0                |
| Due from banks                                     | 4 836            | 0                    | 4 887          | 0                |
| Loans and advances to customers                    | 3 682 978        | 0                    | 0              | 4 043 125        |
| Debt securities                                    | 218 154          | 211 136              | 0              | 21 577           |
| <b>Financial assets</b>                            | <b>4 404 750</b> | <b>211 136</b>       | <b>503 669</b> | <b>4 064 702</b> |
| Financial liabilities at amortised cost, of which: | 4 042 418        | 509 693              | 3 819          | 3 572 973        |
| Loans and deposits received from central banks     | 0                | 0                    | 0              | 0                |
| Due to banks                                       | 1 356            | 0                    | 1 252          | 0                |
| Customer deposits                                  | 3 537 233        | 0                    | 0              | 3 572 973        |
| Issued securities                                  | 503 829          | 509 693              | 2 567          | 0                |
| <b>Financial liabilities</b>                       | <b>4 042 418</b> | <b>509 693</b>       | <b>3 819</b>   | <b>3 572 973</b> |

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 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 30 September 2020 and 31 December 2019 are stated in the table below:

| Own funds   | 30.9.2020        | 31.12.2019        |
|---|------------------|-------------------|
| <b>Original own funds (Tier 1 Capital)</b>  | <b>344 097</b>   | <b>336 934</b>    |
| <b>Items creating the value of original own funds</b>                             | <b>361 390</b>   | <b>359 830</b>    |
| Paid-up share capital   | 226 773          | 226 773           |
| Share premium   | 71 190           | 71 190            |
| Other funds   | 62 223           | 60 517            |
| Another accumulated comprehensive result  | 1 204            | 1 350             |
| <b>Items reducing the amount of original own funds</b>                            | <b>(17 292)</b>  | <b>(22 895)</b>   |
| Accumulated loss of previous year   | (15 514)         | (21 002)          |
| Intangible assets   | (1 778)          | (1 893)           |
| <b>Additional own funds (Tier 2 Capital)</b>                                      | <b>23 695</b>    | <b>22 820</b>     |
| <b>Items creating the value of additional own funds</b>                           | <b>23 695</b>    | <b>22 820</b>     |
| General credit risk adjustments   | 23 695           | 22 820            |
| <b>Own funds total</b>  | <b>367 793</b>   | <b>359 754</b>    |
| <b>Own funds requirements</b>   | <b>30.9.2020</b> | <b>31.12.2019</b> |
| Own funds requirements to cover credit risk and risk of impairment of receivables | 151 651          | 146 047           |
| Own funds requirements to cover operational risk                                  | 12 794           | 12 794            |
| Own funds requirements to cover CVA risk  | 3                | 5                 |
| <b>Own funds requirements</b>   | <b>164 448</b>   | <b>158 944</b>    |

Prima banka met regulatory requirements under the CRR. As at 30 September 2020, the Bank's overall capital adequacy was 17,89 % (31 December 2019: 18,12%). 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,

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

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

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>30.9.2020</b> | <b>31.12.2019</b> |
|---|------------------|-------------------|
| Financial assets at amortised cost                                | 4 200 408        | 4 022 390         |
| Balances with central banks                                       | 341 991          | 349 638           |
| Due from banks  | 6 829            | 3 851             |
| Loans and advances to customers                                   | 3 618 098        | 3 437 837         |
| Debt securities   | 233 490          | 231 064           |
| Trading derivatives   | 0                | 103               |
| Financial assets at fair value through other comprehensive income | 3 197            | 3 100             |
| Deferred tax assets   | 9 432            | 9 432             |
| Other assets  | 20 535           | 22 139            |
| <b>Total</b>  | <b>4 233 572</b> | <b>4 057 164</b>  |

| <b>Credit risk related to off-balance sheet items prior to the deduction of reserves:</b> | <b>30.9.2020</b> | <b>31.12.2019</b> |
|---|------------------|-------------------|
| Issued guarantees   | 6 365            | 6 134             |
| Loan commitments and unused credit limits   | 120 096          | 167 203           |
| <b>Total</b>  | <b>126 461</b>   | <b>173 337</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>30.9.2020</b> | <b>31.12.2019</b> |
|---|------------------|-------------------|
| Cash  | 2 727            | 2 812             |
| Immovable assets                                | 3 864 667        | 3 539 300         |
| Movable assets                                  | 4 989            | 5 491             |
| <b>Collateral received for financial assets</b> | <b>3 872 383</b> | <b>3 547 603</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><br><b>AA</b><br><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><br><b>A</b><br><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><br><b>BBB</b><br><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><br><b>BB</b><br><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><br><b>B</b>                    | Entities with vulnerable ability to meet their financial commitments, with risky future.  |
| <b>B-</b><br><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: |         |               |         |
|--------------|----------------|------------|---|---------|---------------|---------|
|              | 30.9.2020      | 31.12.2019 | Public administration                     |         | Other clients |         |
|              | 4 836          | 3 851      | 167 114                                   | 141 672 | 452 829       | 412 466 |
| Rating AAA   | 0              | 0          | 81  | 96      | 256           | 496     |
| Rating AA+   | 0              | 0          | 2 329                                     | 2 386   | 662           | 609     |
| Rating AA    | 11             | 17         | 6 605                                     | 5 934   | 1 331         | 538     |
| Rating AA-   | 0              | 0          | 8 455                                     | 9 543   | 335           | 626     |
| Rating A     | 10             | 0          | 10 278                                    | 20 029  | 1 289         | 3 483   |
| Rating A+    | 255            | 425        | 20 087                                    | 10 596  | 2 928         | 3 897   |
| Rating A-    | 2 893          | 1 996      | 9 459                                     | 9 586   | 1 065         | 1 258   |
| Rating BBB+  | 71             | 100        | 55 974                                    | 30 225  | 1 034         | 3 681   |
| Rating BBB   | 516            | 136        | 12 123                                    | 9 695   | 11 268        | 8 445   |
| Rating BBB-  | 12             | 98         | 9 950                                     | 9 639   | 5 745         | 6 599   |
| Rating BB+   | 0              | 0          | 11 664                                    | 11 351  | 79 053        | 79 949  |
| Rating BB    | 0              | 0          | 6 742                                     | 9 600   | 268 569       | 177 639 |
| Rating BB-   | 0              | 0          | 7 598                                     | 7 470   | 33 043        | 28 183  |
| Rating B+    | 1 019          | 1 002      | 2 152                                     | 1 747   | 3 809         | 2 887   |
| Rating B     | 0              | 0          | 3 242                                     | 3 253   | 13 949        | 21 678  |
| Rating B-    | 49             | 77         | 49  | 56      | 3 768         | 4 648   |
| Rating CCC   | 0              | 0          | 326                                       | 466     | 24 725        | 67 850  |

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 |            |                       |            |           |            |
|--------------|-----------------|------------|-----------------------|------------|-----------|------------|
|              | Banks           |            | Public administration |            | Corporate |            |
|              | 30.9.2020       | 31.12.2019 | 30.9.2020             | 31.12.2019 | 30.9.2020 | 30.12.2019 |
|              | 9 985           | 16 023     | 150 976               | 197 074    | 59 761    | 20 080     |
| Rating A+    | 0               | 0          | 0                     | 131 297    | 0         | 0          |
| Rating A     | 0               | 0          | 100 335               | 0          | 0         | 0          |
| Rating A-    | 0               | 0          | 50 641                | 50 473     | 0         | 0          |
| Rating BBB   | 9 985           | 16 023     | 0                     | 0          | 0         | 0          |
| Rating BBB-  | 0               | 0          | 0                     | 15 304     | 20 078    | 20 080     |
| Rating CCC   | 0               | 0          | 0                     | 0          | 39 683    | 0          |

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

| Rating scale | Issued guarantees     |            |               |            | Loans commitments     |            |               |            |
|--------------|-----------------------|------------|---------------|------------|-----------------------|------------|---------------|------------|
|              | Public administration |            | Other clients |            | Public administration |            | Other clients |            |
|              | 30.9.2020             | 31.12.2019 | 30.9.2020     | 31.12.2019 | 30.9.2020             | 31.12.2019 | 30.9.2020     | 31.12.2019 |
|              | 5 634                 | 3 896      | 290           | 840        | 34 472                | 32 598     | 6 704         | 15 863     |
| Rating AAA   | 0                     | 0          | 7             | 0          | 900                   | 0          | 133           | 463        |
| Rating AA+   | 24                    | 0          | 4             | 372        | 708                   | 1 034      | 478           | 642        |
| Rating AA    | 306                   | 341        | 0             | 4          | 2 678                 | 1 888      | 505           | 264        |
| Rating AA-   | 946                   | 653        | 0             | 0          | 4 876                 | 5 185      | 188           | 693        |
| Rating A+    | 144                   | 863        | 0             | 60         | 4 290                 | 3 589      | 209           | 874        |
| Rating A     | 672                   | 85         | 55            | 172        | 4 761                 | 4 473      | 350           | 873        |
| Rating A-    | 1 435                 | 656        | 0             | 0          | 2 731                 | 3 450      | 607           | 715        |
| Rating BBB+  | 656                   | 371        | 0             | 206        | 2 403                 | 2 248      | 642           | 940        |
| Rating BBB   | 264                   | 0          | 0             | 0          | 2 702                 | 2 417      | 117           | 423        |
| Rating BBB-  | 361                   | 302        | 101           | 8          | 2 021                 | 1 920      | 213           | 597        |
| Rating BB+   | 537                   | 527        | 0             | 15         | 3 829                 | 1 792      | 298           | 525        |
| Rating BB    | 0                     | 98         | 0             | 0          | 1 124                 | 3 005      | 230           | 2 099      |
| Rating BB-   | 0                     | 0          | 0             | 3          | 1 021                 | 955        | 1 148         | 5 788      |
| Rating B+    | 289                   | 0          | 20            | 0          | 182                   | 263        | 371           | 530        |
| Rating B     | 0                     | 0          | 0             | 0          | 28                    | 17         | 29            | 55         |
| Rating B-    | 0                     | 0          | 0             | 0          | 0                     | 0          | 33            | 51         |
| Rating CCC   | 0                     | 0          | 103           | 0          | 218                   | 362        | 1 153         | 331        |

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 30 September 2020, the exposure to bank and corporate debt securities amounts to € 69 763 thousand (31 December 2019: € 36 103 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 30 September 2020 and 31 December 2019:

|   | 30.9.2020        | 31.12.2019       |
|---|------------------|------------------|
| Agriculture, forestry and fishing                             | 584              | 545              |
| Mining and quarrying  | 0                | 18               |
| Manufacturing   | 4 283            | 7 248            |
| Electricity, gas, steam and air conditioning supply           | 4 494            | 5 184            |
| Water supply; sewerage and waste water management             | 2 819            | 3 156            |
| Construction  | 3 785            | 4 552            |
| Wholesale and retail trade                                    | 22 464           | 22 180           |
| Transportation and storage                                    | 1 091            | 1 864            |
| Accommodation and catering                                    | 5 930            | 6 000            |
| Information and communication                                 | 139              | 420              |
| Financial and insurance activities                            | 219 052          | 207 360          |
| Real estate activities  | 152 071          | 143 912          |
| Professional, scientific and technical activities             | 22 908           | 4 296            |
| Administrative and support service activities                 | 8 300            | 4 377            |
| Public administration and defence; compulsory social security | 139 069          | 142 196          |
| Education   | 113              | 155              |
| Health care and social work activities                        | 2 528            | 2 713            |
| Arts, entertainment and recreation                            | 5 801            | 2 236            |
| Other activities  | 359              | 370              |
| Activities of households as employers                         | 3 087 188        | 2 879 055        |
| <b>Total</b>  | <b>3 682 978</b> | <b>3 437 837</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 30 September 2020 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        | 4 836            | 0             | 0                   | 0                       | 0                | 0                                      |
| Loans and advances to customers, of which: | 3 710 167        | 15 193        | 0                   | 0                       | 1                | 9 389                                  |
| Public administration                      | 139 366          | 47            | 0                   | 0                       | 0                | 0                                      |
| Other clients                              | 3 121 845        | 12 647        | 0                   | 0                       | 0                | 8 953                                  |
| Individuals                                | 448 956          | 2 499         | 0                   | 0                       | 1                | 436                                    |
| <b>Total</b>                               | <b>3 715 003</b> | <b>15 193</b> | <b>0</b>            | <b>0</b>                | <b>1</b>         | <b>9 389</b>                           |

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 impaired loan portfolio (stage 3) as at 30 September 2020, including other receivables from financial transactions:

|   | Public sector | Retail clients | Other clients | Total   |
|---|---------------|----------------|---------------|---------|
| Impaired loans                                      | 222           | 38 588         | 65 646        | 104 456 |
| Provisions  | 111           | 30 040         | 60 494        | 90 645  |
| Recoverable amount of collateral received           | 0             | 8 373          | 5 342         | 13 715  |
| % of coverage by provisions                         | 50%           | 78%            | 92%           | 87%     |
| % of coverage by provisions and received collateral | 50%           | 100%           | 100%          | 100%    |
| Interest income on impaired loans                   | x             | x              | x             | 0       |

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 | Retail clients | Other clients | Total   |
|---|---------------|----------------|---------------|---------|
| Impaired loans                                      | 1 060         | 41 857         | 65 338        | 108 255 |
| Provisions  | 737           | 33 550         | 63 140        | 97 427  |
| Recoverable amount of collateral received           | 295           | 8 315          | 736           | 9 346   |
| % of coverage by provisions                         | 70%           | 80%            | 97%           | 90%     |
| % of coverage by provisions and received collateral | 97%           | 100%           | 98%           | 99%     |
| Interest income on impaired loans                   | x             | x              | x             | 355     |

### 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 € 2 505 thousand as at 30 September 2020 (31 December 2019: € 514 thousand).

The Bank sold real estate pledged against receivables which were unpaid as at 30 September 2020 for € 1 369 thousand (31 December 2019: € 3 769 thousand). The Bank sold a pledge over moveable assets (receivables) as at 30 September 2020 for € 0 thousand (31 December 2019: € 0 thousand).

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

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 valuing 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 30 September 2020:

|                    | Movement in yield curve | Bank's loss from movement in yield curve |
|--------------------|-------------------------|--|
| Banking Book: euro | - 100 BP                | (14)                                     |
| <b>Total</b>       |                         | <b>(14)</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 2019:

|                    | Movement in yield curve | Bank's loss from movement in yield curve |
|--------------------|-------------------------|--|
| Banking Book: euro | -100 BP                 | (176)                                    |
| <b>Total</b>       |                         | <b>(176)</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 30 September 2020:

|   | 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                                       | 429 578              | 0                    | 0                  | 0                       | 0                 | 429 578          |
| Due from banks  | 4 508                | 328                  | 0                  | 0                       | 0                 | 4 836            |
| Loans and advances to customers                                   | 322 289              | 824 047              | 2 503 353          | 28 817                  | 4 472             | 3 682 978        |
| Debt securities   | 1 272                | 31 447               | 124 069            | 61 366                  | 0                 | 218 154          |
| Financial assets at fair value through other comprehensive income | 3 058                | 0                    | 0                  | 0                       | 0                 | 3 058            |
| Financial assets held for trading – derivatives                   | 1                    | 0                    | 0                  | 0                       | 0                 | 1                |
| <b>Interest rate position - financial assets</b>                  | <b>760 706</b>       | <b>855 822</b>       | <b>2 627 422</b>   | <b>90 183</b>           | <b>4 472</b>      | <b>4 338 605</b> |
| Financial liabilities at amortised cost, of which:                |                      |                      |                    |                         |                   |                  |
| Loans and deposits received from central banks                    | 0                    | 0                    | 0                  | 0                       | 0                 | 0                |
| Due to banks  | 1 356                | 0                    | 0                  | 0                       | 0                 | 1 356            |
| Customer deposits   | 693 836              | 626 230              | 2 149 334          | 67 833                  | 0                 | 3 537 233        |
| Issued securities   | 50                   | 0                    | 1 963              | 501 816                 | 0                 | 503 829          |
| Leases  | 0                    | 0                    | 0                  | 7 335                   | 0                 | 7 335            |
| Financial liabilities for trading - derivatives                   | 150                  | 0                    | 0                  | 0                       | 0                 | 150              |
| Hedging derivatives   | 0                    | 0                    | 0                  | 0                       | 0                 | 0                |
| <b>Interest rate position - financial liabilities</b>             | <b>695 392</b>       | <b>626 230</b>       | <b>2 151 297</b>   | <b>576 984</b>          | <b>0</b>          | <b>4 049 903</b> |
| <b>Net interest rate position</b>                                 | <b>65 314</b>        | <b>229 592</b>       | <b>476 125</b>     | <b>(486 801)</b>        | <b>4 472</b>      | <b>288 702</b>   |

## 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>   |

**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, i.e. 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 past months of 2020, 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 30 September 2020:

|   | Up to 3 months incl. | 3 to 12 months incl. | 1 to 5 years incl. | More than 5 years incl. | Unspecified items | Total            |
|---|----------------------|----------------------|--------------------|-------------------------|-------------------|------------------|
| Cash  | 69 204               | 0                    | 0                  | 0                       | 0                 | 69 204           |
| Financial assets at amortised cost, of which:                     |                      |                      |                    |                         |                   |                  |
| Balances with central banks                                       | 429 578              | 0                    | 0                  | 0                       | 0                 | 429 578          |
| Due from banks  | 4 508                | 328                  | 0                  | 0                       | 0                 | 4 836            |
| Loans and advances to customers                                   | 75 601               | 352 104              | 945 209            | 2 318 326               | (8 262)           | 3 682 978        |
| Debt securities   | 1 273                | 31 446               | 124 070            | 61 365                  | 0                 | 218 154          |
| Financial assets held for trading -derivatives                    | 1                    | 0                    | 0                  | 0                       | 0                 | 1                |
| Financial assets at fair value through other comprehensive income | 0                    | 0                    | 0                  | 3 058                   | 0                 | 3 058            |
| Non-current tangible assets                                       | 0                    | 0                    | 0                  | 0                       | 18 521            | 18 521           |
| Non-current intangible assets                                     | 0                    | 0                    | 0                  | 0                       | 1 778             | 1 778            |
| Deferred tax asset  | 0                    | 0                    | 0                  | 0                       | 9 432             | 9 432            |
| Other assets  | 0                    | 0                    | 0                  | 8 001                   | 11 266            | 19 267           |
| <b>Assets total</b>   | <b>580 165</b>       | <b>383 878</b>       | <b>1 069 279</b>   | <b>2 390 750</b>        | <b>32 735</b>     | <b>4 456 807</b> |
| Financial liabilities at amortised cost, of which:                |                      |                      |                    |                         |                   |                  |
| Loans and deposits received from central banks                    | 0                    | 0                    | 0                  | 0                       | 0                 | 0                |
| Due to banks  | 1 356                | 0                    | 0                  | 0                       | 0                 | 1 356            |
| Customer deposits   | 2 390 299            | 403 186              | 743 432            | 316                     | 0                 | 3 537 233        |
| Issued securities   | 50                   | 0                    | 1 963              | 501 816                 | 0                 | 503 829          |
| Leases  | 0                    | 0                    | 0                  | 7 335                   | 0                 | 7 335            |
| Hedging derivatives   | 150                  | 0                    | 0                  | 0                       | 0                 | 150              |
| Reserves  | 0                    | 0                    | 0                  | 0                       | 8 176             | 8 176            |
| Other liabilities   | 33 229               | 0                    | 0                  | 0                       | 5 601             | 38 830           |
| Total equity  | 0                    | 0                    | 0                  | 0                       | 359 898           | 359 898          |
| <b>Liabilities and equity total</b>                               | <b>2 425 084</b>     | <b>403 186</b>       | <b>745 395</b>     | <b>509 467</b>          | <b>373 675</b>    | <b>4 456 807</b> |
| <b>Net balance sheet position</b>                                 | <b>(1 844 919)</b>   | <b>(19 308)</b>      | <b>323 884</b>     | <b>1 881 283</b>        | <b>(340 940)</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 2019:

|   | Up to 3 months incl. | 3 to 12 months incl. | 1 to 5 years incl. | More than 5 years incl. | Unspecified 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  | 0                    | 0                    | 0                  | 0                       | 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 summary below is an analysis of the earliest possible contractual maturity of non-derivative financial liabilities, i.e. the worst-case scenario as at 30 September 2020 (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                                       | 1 356           | 1 353                  | 1 353                | 0                                | 0                               | 0                       |
| Customer deposits                                  | 3 537 233       | 3 454 602              | 2 255 789            | 464 679                          | 733 796                         | 338                     |
| Issued securities                                  | 503 829         | 504 270                | 0                    | 89                               | 2 236                           | 501 945                 |
| Leases   | 7 335           | 7 335                  | 0                    | 0                                | 0                               | 7 335                   |
| Other liabilities                                  | 38 830          | 36 053                 | 36 053               | 0                                | 0                               | 0                       |

The summary below is an analysis of the earliest possible contractual maturity of non-derivative financial liabilities, i.e. 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 provides the worst-case scenario of an analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 30 September 2020 (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                    | 3 497           | 3 497                  | 3 497                | 0                                |
| Loan commitments, of which:                               | 141 281         | 141 281                | 141 201              | 80                               |
| irrevocable   | 141 281         | 141 281                | 141 201              | 80                               |

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                                |
| Loan commitments, of which:                               | 167 203         | 167 203                | 167 103              | 100                              |
| irrevocable   | 167 037         | 167 037                | 167 037              | 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 2020, 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 30 September 2020, the VaR amounted to € (757) (31 December 2019: € (347)).

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 30 September 2020:

|  | EUR              | CZK        | USD          | Other       | Total            |
|--|------------------|------------|--------------|-------------|------------------|
| Assets   | 4 439 762        | 276        | 15 163       | 1 608       | 4 456 807        |
| Liabilities and equity                                 | (4 439 849)      | (256)      | (15 163)     | (1 539)     | (4 456 807)      |
| <b>Net balance sheet foreign exchange position</b>     | <b>(87)</b>      | <b>20</b>  | <b>(0)</b>   | <b>69</b>   | <b>0</b>         |
| Off-balance sheet assets                               | 3 971 209        | 1          | 1            | 1           | 3 971 212        |
| Off-balance sheet liabilities                          | (211 097)        | (8)        | (499)        | (89)        | (211 693)        |
| <b>Net off-balance sheet foreign exchange position</b> | <b>3 760 112</b> | <b>(7)</b> | <b>(498)</b> | <b>(88)</b> | <b>3 759 519</b> |
| <b>Net foreign exchange position</b>                   | <b>3 760 025</b> | <b>12</b>  | <b>(498)</b> | <b>(19)</b> | <b>3 759 520</b> |

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> |

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 2020, 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 € 3 058 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 € 12 794 thousand, of which the following amounts are attributable to individual business lines: retail banking: € 7 493 thousand, commercial banking: € 3 201 thousand, payment services and settlement: € 789 thousand, other: € 1 311 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 30 September 2020:

| Balance sheet                       | Parent Company | Related parties of the Parent Company | Other related parties | Total         |
|-------------------------------------|----------------|---------------------------------------|-----------------------|---------------|
| Loans and advances to customers     | 0              | 96 362                                | 631                   | 96 993        |
| Other assets                        | 0              | 1 630                                 | 0                     | 1 630         |
| <b>Total assets</b>                 | <b>0</b>       | <b>97 992</b>                         | <b>631</b>            | <b>98 623</b> |
| Due to banks                        | 0              | 250                                   | 0                     | 250           |
| Customer deposits                   | 9              | 10 550                                | 4 494                 | 15 053        |
| Liabilities from leases             | 0              | 1 031                                 | 0                     | 1 031         |
| Other liabilities                   | 0              | 42                                    | 0                     | 42            |
| <b>Total liabilities and equity</b> | <b>9</b>       | <b>11 873</b>                         | <b>4 494</b>          | <b>16 376</b> |

## 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>  |

## Revenues and expenses concerning related parties as at 30 September 2020:

|                                     | Parent Company | Related parties of the Parent Company | Other related parties | Total   |
|-------------------------------------|----------------|---------------------------------------|-----------------------|---------|
| Interest and similar income         | 0              | 2 424                                 | 7                     | 2 431   |
| Interest and similar expense        | 0              | 0                                     | (10)                  | (10)    |
| Net fee and commission income       | 0              | 63                                    | 1                     | 64      |
| General and administrative expenses | 0              | 5                                     | 0                     | 5       |
|                                     | 0              | (3 572)                               | (3 580)               | (7 152) |

## Revenues and expenses concerning related parties as at 30 September 2019:

|  | Parent Company | Related parties of the Parent Company | Other related parties | Total   |
|--|----------------|---------------------------------------|-----------------------|---------|
| Interest and similar income            | 0              | 1 849                                 | 7                     | 1 856   |
| Interest and similar expense           | 0              | (51)                                  | (13)                  | (64)    |
| Net fee and commission income          | 0              | 74                                    | 1                     | 75      |
| Net profit from financial transactions | 0              | 2                                     | 0                     | 2       |
| General and administrative expenses    | 0              | (3 140)                               | (1 497)               | (4 637) |

## Off-balance sheet liabilities concerning related parties as at 30 September 2020:

|  | 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                                     | 1                     | 1          |
| <b>Off-balance sheet liabilities</b>                       | <b>0</b>                              | <b>1</b>              | <b>1</b>   |

## 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>   |



### **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.