

Wüstenrot stavebná sporiteľňa, a.s.

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

for the year ended 31 December 2020

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholder, Supervisory Board and Board of Directors of Wüstenrot stavebná sporiteľňa, a.s. :

Report on the Audit of the Separate Financial Statements

Opinion

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

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2020, and of its unconsolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Bank in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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



Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2020: EUR 384,896 thousand; impairment loss recognized in 2020: EUR 1,460 thousand; total impairment loss as at 31 December 2020: EUR 15,865 thousand (the carrying amount of loans and advances to customers as at 31 December 2019: EUR 385,815 thousand; impairment loss recognized in 2019: EUR 2,076 thousand; total impairment loss as at 31 December 2019: EUR 15,430 thousand).

Refer to Note 3.6 (Financial assets and liabilities) and Note 5.1. (Credit risk) to the separate financial statements.

Key audit matter	Our response
<p>Impairment allowances represent the Board of Directors' best estimate of the expected credit losses ("ECLs") within loans and advances to customers at the reporting date. We focused on this area as the determination of impairment allowances requires complex and subjective judgment from the Board of Directors over the amount of any such impairment.</p> <p>Impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing (Stage 3) non-significant exposures (retail loans equal to or below EUR 200 thousand and corporate exposures equal to or below EUR 350 thousand) (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgement are incorporated into the model assumptions.</p> <p>For all significant non-performing exposures (retail loans exceeding EUR 200 thousand and corporate exposures exceeding EUR 350 thousand), the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">• Updating our understanding of the Bank's ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed whether such methods, assumptions, data and their application are appropriate in the context of IFRS 9 requirements. We also challenged the Board of Directors on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;• Obtaining an understanding of the Bank's retrospective review of its ECL estimates and its response to the results of the review, and performing our own independent back-test;• Making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assisted by our own IT specialists, assessing and testing the Bank's IT



basis by means of a discounted cash flow valuation.

For the above reasons, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.

control environment for data security and access;

- Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans and advances, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the overall ECL estimate;
- Assessing whether the definition of default and the staging criteria of the financial instruments standard were consistently applied. Also assessing whether the definition of default applied for each portfolio is appropriate based on the requirements of the standard (e.g. taking into account the 90-day presumption);
- Evaluating whether in its loan staging and ECL measurement the Bank appropriately considered the effects of the market disruption resulting from the COVID-19 pandemic;

For collective impairment allowance:

- Challenging LGD and PD parameters used by the Bank, by reference to historical defaults and realized losses on those defaults, and also considering any required adjustments to reflect expected changes in circumstances;
- Obtaining the relevant forward-looking information that was applied by the Bank through management overlay and assessing the information by means of comparison to publicly available information and corroborating enquiries of the Board of the Directors.



In addition, to further satisfy ourselves regarding impairment allowances calculated individually:

- For those loans where triggers were identified for classification to Stage 3 in the IFRS 9 hierarchy, challenging the key assumptions applied in the Bank's estimates of future cash flow, mainly represented by collateral valuation and also performing respective independent estimations, where relevant.

For loans and advances exposures in totality:

- Critically assessing the overall reasonableness of the impairment allowances, including the loans provision coverage, by benchmarking them against publicly available industry data.
- Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Responsibilities of the Board of Directors and Those Charged with Governance for the Separate Financial Statements

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

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

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



Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



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

Report on Other Legal and Regulatory Requirements

Reporting on other information in the Annual Report

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

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

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

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

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

In addition, we will report whether we have identified any material misstatement in the other information in the Annual Report in light of the knowledge and understanding of the Bank and its environment that we have acquired during the course of the audit of the separate financial statements.



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

Appointment and approval of an auditor

We have been appointed as a statutory auditor by the board of directors of the Bank on 8 July 2020 on the basis of approval by the General Meeting of the Bank on 9 June 2020. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is nine years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

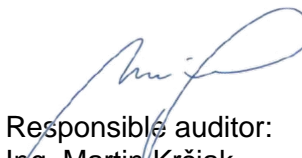
In addition to the statutory audit services and services disclosed in the separate financial statements of the Bank, we did not provide any other services to the Bank or accounting entities controlled by the Bank.

15 March 2021

Bratislava, Slovak Republic



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


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

Separate statement of financial position

<i>in thousands of EUR</i>	Note	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents	6.1	448	1 294
Investments in debt securities	6.2	64 568	92 497
Loans and advances to customers	6.3	369 031	370 385
Investment in subsidiary	6.4	348	369
Property and equipment	6.5	3 932	4 051
Investment properties	6.6	1 911	1 969
Intangible assets	6.7	1 631	1 806
Current tax asset	6.13	125	356
Deferred tax asset	6.14	1 348	1 066
Other assets	6.8	434	582
Total assets		443 776	474 375
Liabilities			
Deposits from customers	6.9	382 235	393 707
Deposits from banks	6.10	10 898	29 698
Accruals/deferrals	6.11	402	378
Provisions	6.12	172	160
Other liabilities	6.15	2 244	2 431
Total liabilities		395 951	426 374
Equity			
Share capital	6.16	16 597	16 597
Legal reserve fund	6.16	3 319	3 319
Revaluation of financial assets at FVOCI		6 625	7 496
Retained earnings and reserve funds		20 589	19 067
Profit for the current period		695	1 522
Total equity		47 825	48 001
Total liabilities and equity		443 776	474 375

Separate statement of profit or loss

<i>in thousands of EUR</i>	Note	1.1.2020- 31.12.2020	1.1.2019- 31.12.2019
Interest income calculated using the effective interest method		12 272	14 548
Interest expenses		- 5 439	- 5 974
Net interest income	6.17	6 833	8 574
Fee and commission income		3 665	3 604
Fee and commission expenses		-250	-277
Net fee and commission income	6.18	3 415	3 327
Net profit from sale of securities		0	0
General operating expenses	6.19	-2 421	-2 719
Personnel costs	6.20	-3 596	-3 437
Depreciation of property and equipment and investment property	6.21	-262	-271
Amortisation of intangible assets	6.21	-399	-425
Other operating income	6.22	285	432
Other operating expenses	6.23	-1 389	-1 403
Operating profit before impairment		2 466	4 078
Impairment allowances for loans to customers	6.24	-1 460	-2 076
Impairment allowances for debt securities		21	10
Impairment allowances for other assets	6.25	1	-3
Profit before tax		1 028	2 009
Income tax	6.26	-333	-487
Profit after tax		695	1 522

Separate statement of other comprehensive income

<i>in thousands of EUR</i>	Note	1.1.2020- 31.12.2020	1.1.2019- 31.12.2019
Profit after tax		695	1 522
<i>Other comprehensive income</i>			
<i>Items that may be reclassified to profit or loss in the future at FVOCI:</i>			
Change in fair value of debt securities		- 1 103	- 1 343
Reclassification of profit or loss to profit or loss		0	0
Deferred tax recognised in equity	6.14	232	282
Other comprehensive (loss) / income		- 871	- 1 061
Total comprehensive (loss) / income for the period		-176	461
Attributable to:			
Bank shareholders		-176	461
		-176	461

Separate statement of changes in equity

<i>in thousands of EUR</i>	Share capital	Legal reserve fund	Revaluation of financial assets at FVOCI	Retained earnings and reserve funds	Profit for the current period	Total
31.12.2020						
Balance sheet as at 1.1.2020	16 597	3 319	7 496	19 067	1 522	48 001
Profit for the year 2020	0	0	0	0	695	695
Other comprehensive income						
Net change in fair value of securities through comprehensive income, after tax	0	0	-871	0	0	-871
Total comprehensive income for the period	0	0	- 871	0	695	-176
Transactions with shareholders of the Bank						
Transfer based on shareholders' decision	0	0	0	1 522	-1 522	0
Dividends paid	0	0	0	0	0	0
Total transactions with shareholders	0	0	0	1 522	-1 522	0
As at 31.12.2020	16 597	3 319	6 625	20 589	695	47 825

<i>in thousands of EUR</i>	Share capital	Legal reserve fund	Revaluation of financial assets at FVOCI	Retained earnings and reserve funds	Profit for the current period	Total
31.12.2019						
Balance sheet as at 31.12.2019	16 597	3 319	8 557	17 493	1 574	47 540
Profit for the year 2019	0	0	0	0	1 522	1 522
Other comprehensive income						
Net change in fair value of securities through comprehensive income, after tax	0	0	-1 061	0	0	-1 061
Total comprehensive income for the period	0	0	- 1 061	0	1 522	462
Transactions with shareholders of the Bank						
Transfer based on shareholders' decision	0	0	0	1 574	-1 574	0
Dividends paid	0	0	0	0	0	0
Total transactions with shareholders	0	0	0	1 574	-1 574	0
As at 31.12.2019	16 597	3 319	7 496	19 067	1 522	48 001

Separate statement of cash flows

<i>in thousands of EUR</i>	Note	31.12.2020	31.12.2019
Operating activities			
Profit or loss before tax		1 028	2 009
Interest income	6.17	-12 272	-14 548
Interest expenses	6.17	5 439	5 974
Amortization of intangible assets	6.21	399	425
Depreciation of property and equipment and amortisation of investment property	6.21	262	271
Creation of impairment allowances for loans to customers	6.17, 6.24	1 460	2 076
Creation of impairment allowances for other assets	6.25	-5	-1
Release of impairment allowances for securities		-21	-10
Profit / loss from sale of property and equipment and intangible assets	6.22	1	0
Other non-monetary items		0	0
Interest received		12 935	14 451
Interest paid		-5 301	-6 153
Income tax paid		-153	-1 095
Cash flows from operating activities before changes in operating assets		3 772	3 399
Decrease / increase in loans and advances to banks		0	0
Decrease / increase in loans and advances to customers	5.1.2.1	-748	-24 025
Decrease / increase in other assets	6.8	153	129
Decrease / increase in customer accounts	6.9	-11 610	9 452
Decrease / increase in deposits by banks	6.10	-18 800	-7 396
Decrease / increase in other liabilities	6.15	-151	46
Net cash flows used in operating activities		-27 384	-18 394
Investment activities			
Proceeds from investment in debt securities	6.2	26 848	19 060
Additions in property and equipment and intangible assets	6.5, 6.6, 6.7	-310	-532
Net cash flows from investment activities		26 538	18 528
Financing activities			
Dividends paid		0	0
Net cash flows from financing activities		0	0
Change in cash and cash equivalents		-846	133
Cash and cash equivalents at the beginning of the year	6.1	1 294	1 161
Cash		-1	-1
Current accounts with other banks		-349	-170
Compulsory minimum reserves - excess		-451	362
Deposits with central banks		0	0
Term deposits up to 3 months		0	0
Other loans and advances with banks		-45	-58
Cash and cash equivalents as at 31.12.	6.1	448	1 294
Change in cash and cash equivalents		-846	133

1 GENERAL INFORMATION

1.1 Business name and registered office of the Company

Wüstenrot stavebná sporiteľňa, a.s. (hereinafter the "Bank") was established on 24 March 1993 and was incorporated to the Commercial Register on 26 May 1993 (Commercial Register of the District Court Bratislava I, Section Sa, File No.: 529/B). The Bank operates on a specific banking license according to Act No. 310/1992 Coll. on construction savings issued by the National Bank of Slovakia (hereinafter "NBS").

Registered office: Wüstenrot stavebná sporiteľňa, a.s.
Grösslingova 77
824 68 Bratislava
IČO: 31 351 026
DIČ: 2020806304

1.2 Principal activities of the Bank

The principal activities of the Bank are as follows:

- accepting deposits from home savers or for the benefit of home savers,
- provision of loans to home savers from the resources of the home savings' fund for construction purposes referred to in Article No. 11 Section 1 of the Home Savings Act, providing guarantees to another bank for construction loans, mortgage loans or municipal loans,
- accepting deposits from banks,
- provision of payment services,
- provision of advisory services in the field of the subject of the home savings bank,
- financial intermediation according to Act no. 186/2009 Coll. on financial advice and on the amendment of certain laws as a contractual financial agent in the insurance and reinsurance sector,
- investing for own account and trading for own account in euro money market financial instruments and euro capital market financial instruments
- accepting deposits from foreign banks, branches of foreign banks and financial institutions.

The Bank provides services through a network of Wüstenrot agencies and a network of Wüstenrot centers. As at 31 December 2020 the Wüstenrot agencies network consisted of 36 agency directors, 69 business group managers and 247 home savings advisors. The Bank also provides its services through the network of 25 Wüstenrot centers ("WUC"), established by the transformation of the Service Centers of Wüstenrot stavebná sporiteľňa, a.s. and Customer Centers of Wüstenrot poisťovňa, a.s. As at 31 December 2020, there were 22 heads of WUC centers, 20 representatives of WUC centers and 145 home savings managers. 64 partners participated in the mediation of home savings contracts.

1.3 Bank shareholders' structure

Shareholders' structure as at 31 December 2020 and as at 31 December 2019:

Shareholders	Registered office	Shares in %	
		2020	2019
Bausparkasse Wüstenrot AG	Alpenstraße 70, 5020 Salzburg, Austria	100	100
Total		100	100

The amount of voting rights of the Bank's shareholders corresponds to the number of their shares derived from the amount of their ownership interest in the Bank's share capital (Bausparkasse Wüstenrot AG: 1,000 votes).

The company is included in the consolidated financial statements of the parent company Bausparkasse Wüstenrot AG, Alpenstrasse 70, 5020 Salzburg, Austria. The consolidated financial statements will be available at the parent company's registered office. The ultimate parent company is Wüstenrot Wohnungswirtschaft reg.Genossenschaft mbH, Alpenstraße 70, Salzburg, Austria.

1.4 Bodies of the Bank

The Bank's statutory and supervisory bodies in 2020 are as follows:

Board of Directors		Supervisory board	
Chairman:	Mag. Christian Sollinger, CIIA	Chairman:	Prof. Dr. Andreas Grünbichler
Members:	Dr. Klaus Wöhry	Vice-chairman:	Dr. Susanne Riess
	Ing. Marián Hrotka, PhD.	Members:	Mag. Gerald Hasler

Proxy holders of the Company: Ing. Vladimír Gál, JUDr. Katarína Novotná and Gabriela Repáková.

Two Members of the Board of Directors act jointly on behalf of the Bank or one Member of the Board of Directors with one proxy holder.

1.5 Information on subsidiary

Name	Address	Principal activities	Recognition of interests in subsidiaries
Wüstenrot Servis, spol. s r.o.	Grösslingova 77, Bratislava	Search for housing projects, Property management	acquisition costs

1.6 Number of employees

	as at 31.12.2020	as at 31.12.2019
Total number of employees	240	250
- of which managers	4	4
	2020	2019
Average recalculated number of employees in the year*	101.21	105.56

* Average recalculated number of employees is calculated based on the length of working hours. The remaining part of the working hours represents work for Wüstenrot poisťovňa, a.s.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Bank prepares separate financial statements only, as in accordance with Article 22 Section 10 of Act no. 431/2002 Coll. on Accounting it is exempted from the obligation to prepare consolidated financial statements and a consolidated annual report. The preparation of separate financial statements will not significantly affect the judgment on the financial situation, costs, revenue and comprehensive income for the consolidated entity. The Bank's subsidiary is Wüstenrot Servis, spol. s r.o.

These financial statements can be obtained directly at the registered office of Wüstenrot stavebná sporiteľňa, a.s.

The Bank's separate financial statements for 2019 were approved by the General Meeting of Shareholders on 9 June 2020.

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The Bank is required to comply with the Act No. 431/2002 of the Slovak Act on Accounting, as amended (hereinafter the "Act on Accounting") and in accordance with IFRS as adopted by the European Union. Pursuant to the Article 17 a, Section 1 of the Act on Accounting, the Bank prepares its financial statements in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of European Committee No. 1606/2002 of 19 July 2002 on the application of international accounting standards, as amended.

2.2 Basis of preparation of the financial statements

The financial statements have been prepared on the historical cost basis, except for debt instruments at FVOCI that are measured at fair value.

2.3 Going concern

The financial statements have been prepared on accrual basis, i.e. the effects of transactions and other events are recognised in terms of time and substance in the period to which they relate under a going concern assumption of the Bank. Covid 19 pandemic did not have a significant impact on the going concern assumption of the Bank.

2.4 Functional and presentation currency

These financial statements are presented in euro, which is the Bank's functional currency. Unless otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

2.5 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in notes 3 and 4.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Investments in subsidiaries

Investments in subsidiaries over which the Bank exercises control are stated at acquisition cost in the financial statements. Any reduction in their value below the cost is expressed through an impairment allowance comparing the acquisition cost with the present value of the estimated future cash flows.

The Bank "controls" an investment if it is exposed to or entitled to variable investment returns and has the power to influence those returns through its power over the investment. The Bank reassesses whether it has control if there are changes in one or more elements of control. This includes the fact that the protection rights become significant and lead to the Bank gaining control over the investment.

3.2 Transaction day

The transaction day is in particular the day of payment or cash receipt, the day of purchase or sale of funds in foreign currency, the day of payment from the client's account, the day of crediting the payment to the client's account, the day on which the receivable and liability arise, their change or extinction.

Securities transactions or forward transactions on the money market are recorded from the off balance sheet to balance sheet for on the day of their financial settlement.

3.3 Cash and cash equivalents

For the cash flow statement purposes, the cash and cash equivalents include:

- cash on hand in EUR and foreign currencies,
- excess on the account of compulsory minimum reserves ("CMR") in the National Bank of Slovakia ("NBS"),
- loans received from NBS under repo transactions with contractual maturity of three months and less,
- current account balances in other banks,
- term deposits in other banks with contractual maturity of three months and less.

3.4 Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into euro at the exchange rates declared by the ECB ruling on the date of the transaction. Monetary assets and liabilities in foreign currency are translated at the rates of exchange ruling as at the reporting date. Gains and losses arising from the translation to the euro are recognised in foreign exchange losses or gains charged or credited to profit or loss.

3.5 Cash on hand, accounts with NBS and loans and advances to banks

Cash on hand is valued at nominal value. Compulsory minimum reserves in the NBS are valued at nominal value, including accrued interest income. Term deposit transactions are initially measured at fair value, which includes transaction costs directly attributable to the transaction. Subsequently, these items are measured at amortised cost. Accrued interest is also part of their valuation. CMRs are required deposits with a limited drawing.

3.6 Financial assets and financial liabilities

Measurement

Amortised cost and effective interest rate

Amortised cost is the amount at which a financial asset or financial liability is measured on initial recognition, less repayments of principal and increased or decreased by cumulative depreciation of any difference between the initial value and value at maturity using the effective interest rate method, for the financial assets adjusted for a possible loss allowance. The effective interest rate is the rate which exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before any impairment loss) or the amortised cost of the financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts, fees and points paid or received which form an integral part of the effective interest rate, such as. fees for the establishment of a financial asset.

Interest income

Interest income is calculated using the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) purchased or originated credit-impaired financial assets ('**POCI**') are those financial assets for which the original credit impaired effective interest rate is applied to the amortised cost of the financial assets.
- (b) financial assets that are not "POCIs" but subsequently became impaired (or "stage 3"), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. less an ECL impairment allowance).

Initial recognition and measurement

An entity recognises financial assets and financial liabilities only when it becomes a party to the contractual terms of the instrument. Usual purchase or sale of financial assets is reported in the off balance sheet on the trade date, i. e. on the day the Bank undertakes to buy or sell the asset.

On initial recognition, the Bank measures a financial asset or financial liability at its fair value, increased or decreased (if the financial asset or financial liability is not measured at fair value through profit or loss) by transaction costs which are incremental and directly attributable to the acquisition or disposal of a financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are recognised in profit or loss immediately after initial recognition, an impairment allowance for ECL is recognised for financial assets at amortised cost and investments in debt instruments measured in FVOCI, as described in Note 4.1 of the notes.

If the fair value of financial assets and financial liabilities at initial recognition differs from the transaction price, the entity recognises the difference as follows:

- (a) When fair value is demonstrated as the quoted market price in an active market for an identical instrument (Level 1) or it is the result of a valuation technique which uses only observable market data, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of the recognition of the accrued gain or loss on day 1 is determined individually. It is either amortised over the life of the financial instrument, accrued until the fair value of the instrument can be determined using observable market inputs, or it is realised through settlement.

(i) Classification and subsequent measurement

The Bank applies IFRS 9 and classifies its financial assets in the following measurement categories:

- Assets measured at fair value through other comprehensive income ("FVOCI"), or
- Assets measured at amortised cost ("AC");

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

Debt instruments

- Debt instruments are those instruments such as loans, government and corporate bonds and trade receivables purchased from clients in factoring contracts without recourse.
- Classification and subsequent measurement of debt instruments depends on:
 - (i) business model for the asset management, and
 - (ii) cash flows characteristics of the asset.
- Based on these factors, the Bank classifies its debt instruments into one of the following three valuation categories:
 - *Amortised cost*: Assets held for collecting contractual cash flows, where these cash flows represent solely payments of principal and interest ("SPPI") and which are not intended for measurement at fair value through profit or loss ("FVTPL"), are measured at amortised cost. The carrying amount of these assets is adjusted by any impairment allowance for expected credit losses, recognised and measured as described in Note 4.1. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
 - *Fair value through other comprehensive income (FVOCI)*: Financial assets held for collecting of contractual cash flows with the selling option, whereby cash flows from these assets represent SPPI, and which are not intended for measurement at FVTPL, are measured at fair value through other comprehensive income. Movements in carrying amount are recognised in other comprehensive income ('OCI'), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the amortised cost of the instrument, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and is recognised in "*Net investment income*". Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- *Fair value through profit or loss (FVTPL):* Assets which do not meet the criteria for valuation at amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment which is subsequently measured at fair value through profit or loss and which is not part of a hedging relationship is recognised in profit or loss in the income statement under "Net trading income" in the period of their origin, unless it arises from debt instruments which have not been designated at fair value or are not held for trading. In these cases, they are presented separately under "Net investment income". Interest income from these financial assets is included in "Other interest income".
- *Business model:* The business model reflects how the Bank manages the assets to generate cash flows. This means whether the Bank's objective is only to collect contractual cash flows from these assets or whether it also intends to collect cash flows from their sale. If neither of these options applies (e.g. when financial assets are held for trading purposes), then the financial assets are classified as part of an "other" business model and are measured at FVTPL. Factors the Bank takes into account in determining the business model for its assets include past experience of how cash flows from those assets have been collected, assessment of the performance of the asset and reporting to key management personnel, how risks are assessed and managed, and how managers are compensated. For example, the Bank's mortgage business model is to hold to collect contractual cash flows. Another example is the portfolio of liquid assets that the Bank holds as part of liquidity management and generally classifies it within the business model "held-to-collect contractual cash flows as well as cash flows from potential sales". Securities held for trading are held primarily for the purpose of selling them in the short-term or they are part of a portfolio of financial instruments which are jointly managed and for which there is evidence of a recent effective short-term profit pattern. These securities are included in a "different" business model and are measured at FVTPL.
- *SPPI:* When the business model is set to hold assets with the intention of either collecting contractual cash flows or collecting contractual cash flows as well as cash flows from their eventual sale, the Bank assesses whether cash flows from financial instruments represent solely payments of principal and interest (so called "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are in accordance with the basic loan agreement, i. e. whether the interest includes only remuneration for the time value of money, credit risk, other underlying lending risks and a profit margin in line with the basic lending agreement. When contractual terms introduce exposure to risk or instability not in line with the underlying loan agreement, the related financial asset is classified and measured at FVTPL.
- Financial assets with embedded derivatives are considered as a whole when determining whether their cash flows represent solely payments of principal and interest.
- The Bank reclassifies debt investments when and only when its business model for managing these assets changes. Reclassification takes place from the beginning of the first accounting period after the change. Such changes are not expected to be very frequent and have not occurred during the current reporting period.

(ii) Impairment

The Bank forecasts the expected credit losses ("ECL") associated with its debt instruments at amortised cost and FVOCI and the risks arising from loan commitments and financial collateral arrangements. The Bank recognises an impairment allowance for such losses at each balance sheet date. ECL measurement reflects:

- an unbiased and probability-weighted amount, which is determined by evaluating the full range of possible outcomes,
- the time value of money, and
- reasonable and supportable information, current conditions and forecasts of future economic conditions, that is available as at the reporting date without undue cost or effort.

Note 4.1 provides further details on how impairment allowance is measured due to expected credit losses.

(iii) Loan modification

The Bank seldom renegotiates or otherwise modifies the contractual cash flows from the loans it has provided to its customers. When this happens, it assesses whether the new conditions differ significantly from the original ones or not by considering, inter alia, the following factors:

- if the borrower is in financial difficulties, whether the modification substantially reduces the contractual cash flows to amounts the borrower is likely to be able to pay,
- whether there has been a significant extension of the duration of the loan if the borrower is not in financial difficulties,
- If the new terms are significantly different, the Bank derecognises the original financial asset and recognises the "new" asset at fair value and calculates a new effective interest rate for it. The date of the renegotiation is subsequently considered to be the date of initial recognition for the purposes of calculating the impairment allowance and to determine whether there has been a significant increase in credit risk. However, the Bank also assesses whether the newly reported financial asset is considered to be impaired on initial recognition, especially when the renegotiation of the loan terms occurred at the initiative of the borrower, who was unable to repay the originally agreed instalments. Differences in carrying amount are also recognised in profit or loss as profit or loss on derecognition.

- If the new terms do not differ substantially from the old ones, renegotiation or modification of the loan terms does not result in derecognition and the Bank recalculates the gross carrying amount based on the revised cash flows from the financial asset and recognises a gain or loss on the modification in profit or loss. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate (or the credit-adjusted effective interest rate in purchased or incurred credit-impaired financial assets).
- Modified loans are monitored in the Bank's systems. The effects of modifications to financial assets on the calculation of expected credit losses are described in Note 5.1.

(iv) Derecognition other than modification

- A financial asset or portion of a financial asset is derecognised only when the contractual rights to receive cash flows have expired or have been transferred and the Bank has either (i) transferred substantially all risks and rewards of ownership of the financial asset, or (ii) the Bank will neither transfer them nor retain them, nor will it retain control over the financial assets.
- The Bank enters into transactions in which it retains the contractual rights to receive cash flows from financial assets but assumes the contractual obligation to pay the cash flows to other entities and transfers substantially all risks and rewards. These transactions are accounted for as "pass-through" transfers which result in derecognition if the Bank:
 - (i) is not required to make payments until it has collected equivalent amounts from the financial assets;
 - (ii) has prohibited the sale or incorporation of financial assets; and
 - (iii) is not required to pass on the funds it collects from the financial assets to the final beneficiary without significant delay.
- Collaterals (shares and bonds) issued by the Bank under standard repurchase agreements and transactions involving securities lending and borrowing are not derecognised because the Bank retains substantially all rights and rewards based on a predetermined redemption price and thus the derecognition criteria are not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

3.6.1 Financial guarantee contracts and loan commitments

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 (see (J)(vii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of

- (i) the loss allowance determined in accordance with IFRS 9 and
- (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognized. Derecognition policies are applied to loan commitments issued and held

In loan commitments and financial guarantee contracts, loss compensation is recognised as a provision. However, for contracts that include both a loan component and an undrawn commitment component and for which the Bank is unable to distinguish expected credit losses from the undrawn component from losses on the loan component, expected credit losses from the undrawn component are recognised together with compensation for loan loss. If the combined credit losses exceed the gross carrying amount of the loan, they are recognised as a provision.

3.7 Fair value measurement

IFRS 13 - Fair Value Measurement defines fair value as the price which was received for the sale of an asset or paid for the transfer of a liability in a regular transaction between market participants at the measurement date in the principal market or, if there is no market, in the most advantageous market accessible to this date. The fair value of the liability reflects the risk of default.

Determination of fair value of securities:

The fair value of a security for which there is an active market and whose market value can be reliably estimated is determined as the price at which the security was last traded on a regulated market on the day of its valuation. If this price cannot be determined, the price at which the relevant security was last traded before the valuation day shall be used for its valuation, and if this price is not older than 30 days. If the market price of a security is older than 30 days, the theoretical price of the security shall be determined.

The theoretical price of a security is determined using the yield curve of Slovak government securities published in the Bloomberg application on the day following the end of the month prior to trading.

The theoretical price of a security is calculated by adding a risk premium of 40 basis points (yield + 40 bp) to the yield (YTM) of a government security with a comparable maturity. The theoretical price (theoretical exchange rate) of the security is derived from the yield calculated.

Valuation techniques

The purpose of valuation techniques is to estimate, under current market conditions, the price of an asset or liability between market participants at the measurement date.

The Bank uses a market approach to the valuation of securities and loans and advances to banks. The Bank uses the discounting cash flows method when measuring loans and advances to customers and customer accounts.

Fair value hierarchy

To increase the consistency and comparability of fair value measurements and related disclosures, IFRS 13 introduces a fair value hierarchy that categorizes the inputs to the fair value measurement techniques into three levels. The values of financial instruments at fair value according to specified levels are set out in sections 4.3 and 6.30 Fair value of financial instruments.

Fair value hierarchy has following levels:

Level 1: quoted market price (unadjusted) in an active market,

Level 2: valuation by a model whose all significant input parameters are directly observable from the financial markets, or valuation by a price quoted on a non-active market,

Level 3: valuation by a model of which some significant input parameters are not directly observable from the financial markets, subjective input parameters.

3.8 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and their net amount is recognised in the balance sheet when there is a legally enforceable right to set off the reported amounts and there is an intention to settle transactions on their net difference or to realise the assets at the same time as the liability is settled.

3.9 Property and equipment and intangible assets

Property and equipment and intangible assets are stated at acquisition cost, while the amount of their depreciation is expressed indirectly through accumulated depreciation. The acquisition cost includes the acquisition cost of the property and equipment and costs related to its acquisition, such as transport costs, postage, customs duties, commissions, interest on investment loans, recorded from the time of the beginning of the acquisition until the time of putting the property in use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost can be measured reliably. Repairs and maintenance are charged to the income statement in the accounting period in which they are incurred.

Property and equipment and intangible assets are depreciated on a monthly basis, starting with the month in which the assets were made available for use in accordance with the approved depreciation plan. Tangible and intangible assets are depreciated on a straight-line basis using the time depreciation method, with monthly depreciation determined as the ratio of the depreciable amount and the estimated useful life of the asset. Depreciable amount is the cost less the amount at which an item of property could be disposed of. The sales value is determined after deducting the cost of sales.

The depreciation plan, from which the accounting depreciation rates are derived, is determined based on the estimated useful life of the asset as follows:

Asset	Depreciation in years
Property and equipment:	
Buildings, constructions, small constructions	40
Machinery and equipment	4, 6
Hardware	4
Small value items	6, 12
Furniture	6
Vehicles	4
Intangible assets:	
Software, valuable rights	4, 10

The Bank regularly reassesses estimated useful lives and the method of depreciation at the end of each accounting period.

If any circumstances indicate a decrease in the carrying amount of assets, the Bank estimates its realisable value. If the carrying amount of assets exceeds its estimated realisable value, it is a temporary impairment of the asset, which is adjusted by creating an impairment allowance reducing the carrying amount of the asset to its realisable value. Realisable value is the higher of fair value less costs to sale and value in use.

3.10 Investment property

Investment property is held for the purpose of obtaining rental income. Based on a lease contract concluded between Wüstenrot stavebná sporiteľňa, a.s. and Wüstenrot poisťovňa a.s., the Bank leases part of its premises in real estate in Banská Bystrica, Košice, Nitra and headquarters in Bratislava. The property in Bratislava on Vajnorská Street is rented by the Bank in full. If the part of the property is leased to another entity and the remaining part is used by the Company, the value of the buildings is divided between investment property and property and equipment according to use and the related area in m².

Investment property is valued at acquisition cost and the amount of wear and tear is expressed through amortisation. Amortisation on investment property is calculated in the same way as depreciation on property and equipment - buildings.

The fair value of investment property for disclosure purposes is determined as the market price based on an expert opinion prepared by a qualified expert every three years. The management assessed the fair value in the years when there is not prepared expert opinion based on the available market rates of real estates.

The acquisition cost, net book value and fair value of investment property are set out in note 6.6.

3.11 Lease

The Bank as a lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term in the income statement and is included in "Other operating income".

Leases in which a significant portion of the risks and rewards of ownership remain with the lessor are classified as operating leases. Payments made or received under operating leases (net of incentives provided by the lessor) are recognised in the income statement on a straight-line basis over the lease term.

The Bank as a lessee

Most active contracts in which the Bank acts as a lessee fall under the exception of IFRS 16 for lessees, which applies to leases with a lease term of 12 months or less. The Bank does not consider the impact of other active contracts that do not fall under this exception to be significant.

Rental expense from operating leases is charged to expenses on a straight-line basis over the lease term and is recognised in the income statement and is included in "General operating expenses".

3.12 Inventory

Inventories are measured at acquisition cost less any impairment allowances so that the value of any item of inventories does not exceed its net realisable value. The cost of inventories includes all costs of purchase, own work capitalised and other costs incurred in bringing the inventories to their present condition at their present location.

When measuring the issue of inventories of the same type, the Bank uses the FIFO method, in which the price of the first receipt is used for the first issue - expenditures are therefore always measured at the price of the oldest inventories gradually towards the newest.

3.13 Customer accounts

Customer accounts are initially recognised at fair value less transaction costs directly attributable to the acquisition of a financial liability (commission for concluding a contract).

These liabilities are measured at amortised cost using the effective interest rate method for each subsequent measurement. In addition to transaction costs, the accrual during the savings period also includes a fee for concluding a home savings contract.

3.14 Provisions

Provisions represent liabilities of indefinite duration or amount and measured at the present value of expected expenses. All risks and uncertainties that are necessarily accompanied by many related events and circumstances need to be considered in estimating provisions.

A provision is created if the following criteria are met:

- there is an obligation (legal or constructive) to perform as a result of past events,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- it is possible to make a reasonably reliable estimate of the decline in economic benefits.

3.15 Related parties

A related party is a person or entity related to the entity which prepares the financial statements ("the reporting entity").

A person or a close family member of that person is related party if:

- has a control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or the parent company of the reporting entity.

An entity is related to the reporting entity if:

- that entity and the reporting entity belong to the same group; that is, parent company, subsidiary and sister entity is related to each other,
- one entity is an associate or joint venture entity of another entity, or an associate or joint venture entity of a member of a group of which that other entity is a member;
- both entities are entities with joint control over the same third party,
- one entity is an entity with joint control over a third party and the other entity is an associate of that third party;
- An entity is a post-employment benefit plan for employees of either the reporting entity or an entity related to that reporting entity. If the reporting entity itself is such a pension scheme, the contributing employees are related to it,
- the entity referred to in point 1 has control or joint control over the entity.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party whether or not a fee has been charged.

Close family members of a party are family members of that party who may be expected to influence that party or be influenced by that party in their activities with the entity and include:

- the children, spouse or partner of the party,
- children of that party's spouse or partner,
- dependent persons of this party, partner of this party or spouse of this party.

Key management personnel are persons who have the authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

In assessing the relationship with each related party, the Bank emphasizes the substance of the relationship, not just the legal form.

As part of its ordinary activities, the Bank enters into several transactions with related parties (Note 6.28).

3.16 Employee benefits

Short-term employee benefits

Short-term liabilities to employees that arise in connection with the time and material performance of work by the Bank's employees are reported in "Personnel costs" in the income statement. Short-term liabilities to employees include wages, holiday pay, etc.

Termination employee benefits

The Bank categorizes employee benefits related to employee retirement benefits as defined contribution plans.

In defined contribution plans, the Bank pays fixed contributions to an independent entity, which are recognised in the income statement in "Personnel costs". This is compulsory social insurance paid by the Bank to the Social Insurance Agency or to a private fund in line with relevant legal regulations. The Bank has no legal or other (implicit) obligation to pay further contributions if the relevant funds do not have sufficient assets to pay benefits to all employees for their time worked in the current and prior periods.

3.17 Equity

Dividends are recognised as a decrease in equity when approved by the general meeting. Dividends approved by the General Meeting after the reporting date are disclosed in the notes to the financial statements.

The Bank is obliged to contribute 20% of the share capital with a maximum annual contribution of 10% of the net profit in the relevant accounting period to the legal reserve fund. The legal reserve fund may only be used to cover losses.

3.18 Accounting policies for interest income and interest expense, methods of reporting income from impaired assets, including interest

- The Bank recognises accrued interest income and accrued interest expenses related to assets and liabilities together with those assets and liabilities using the effective interest rate method. Interest income and expense also includes fees for providing a loan and commitment fees, which are subject to the effective interest rate calculation and are amortised over the life of the loan.
- Interest income from loans is calculated using the interest rate at which future cash flows were discounted for the purposes of determining the amount of impairment allowance.
- Interest income and interest expenses from financial assets at amortised cost and FVOCI are recognised using the effective interest rate method. The Bank recognises discount as interest income/expenses, where discount is the gradually achieved difference between the lower purchase price and the higher nominal value of the bond and also the gradually achieved interest on the coupon and the premium, i.e. the gradually achieved difference between the higher purchase price and the lower nominal value of the bond. While holding government bonds, the Bank charges interest income from the coupon in the gross amount.
- Interest income from NBS treasury bills is recognised using the effective interest rate method.

The fee for concluding a contract and commissions paid or received for acquisition or creation of a financial asset or liability are part of the effective interest rate of the financial instrument.

3.19 Fee and commission recognition

Received fees for providing a loan and intermediation commissions paid to sales representatives are included in the valuation of loans and the calculation of the effective interest rate (Note 3.18) and are reported in Loans and advances to customers.

Received fees for concluding a home savings contract, as well as related commissions paid to sales representatives, are included in the valuation of deposits from customers and the calculation of the effective interest rate and are reported in the Deposits from customers.

All other fees related to home savings contracts, loans for building purposes and intermediate loans (e.g. the fee for increasing the target amount of savings) represent income at the time of providing the service and do not enter into the valuation of home savings or loan for building purposes and intermediate loan.

Revenue recognised in accordance with IFRS 15:

Revenue related to transactions (account cancellation, early repayment and others) is recognised at the time of the transaction.

Revenue for account-related services and service fees (account management fee, account statement fee, etc.) are recognised during the service provision period.

Nature and timing of settlement of standard liabilities, including important payment terms:

Fees for services related to transactions on client accounts are charged to the client at the time of the transaction. Account management fees and service fees are deducted from client accounts on a monthly basis. The Bank reassesses the amount of fees on an annual basis.

3.20 Income tax

Current and deferred tax asset and liability are recognised separately from other assets and liabilities.

The tax stated in the income statement for the reporting period includes tax payable for the accounting period and deferred tax. The tax base for current income tax is calculated from the IFRS profit or loss for the current period by adding items increasing and by deducting items decreasing profit or loss.

Deferred taxes (Deferred tax assets and deferred tax liabilities) refer to temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the tax base. A deferred tax asset is recognised when it is probable that future taxable profits will be available against which the Bank can settle the asset.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

3.21 Embedded derivatives

The interest bonus (section 6.9) and home savings agreement early termination fees have the characteristics of an embedded derivative, but the economic characteristics and risks of the embedded derivatives are closely related to the economic characteristics and risks of the underlying financial instrument. Therefore, embedded derivatives are not recognised separately from the underlying financial instrument.

3.22 Standards and interpretations related to the Bank's activities, issued and effective for accounting periods beginning on 1 January 2020

The Bank does not expect that the amendments will have a material impact on the financial statements.

- Amendments to References to the Conceptual Framework in IFRS;
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Definition of an enterprise (Amendments to IFRS 3); and
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

3.23 Standards and interpretations related to the Bank's activities, issued but not yet effective

As at the date of approval of the financial statements, the following standards have been issued but have not yet become effective or have not yet been adopted in the EU. The following standards and interpretations are those, in which the Bank expects some effect on the disclosures, financial position, or performance at the time of their future application. The Bank plans to apply these standards from the effective date of from the EU adoption date.

Amendments to IFRS 16 Leases - COVID-19-Related Rent Concessions

Effective for annual periods beginning on or after 1 June 2020. Early application is permitted.

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

This practical expedient is not available for lessors.

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

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

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

Reference to the Conceptual Framework (Amendments to IFRS 3)

Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Amendments to IAS 1 Presentation of financial statements classification of liabilities as current or non-current

Effective for annual periods beginning on or after 1 January 2023. Early application is permitted

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is

not affected by management's intentions or expectations about whether and when the Entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

Amendment to IAS 16 Property, plant and equipment property, plant and equipment – proceeds before intended use

Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

Amendments to IAS 37 Provisions, contingent liabilities and contingent assets onerous contracts – cost of fulfilling a contract

Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Annual Improvements to IFRS Standards 2018-2020

Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Amendment to IFRS 9 Financial Instruments

The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendment to Illustrative Examples accompanying IFRS 16 Leases

The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee's accounting for such reimbursement.

In addition, the following amendments were published but not yet effective and endorsed by EU:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies;
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates.

4 USE OF ESTIMATES AND JUDGMENTS

4.1 Measurement of impairment allowance for loans on expected credit loss

ECL measurement. The calculation and measurement of ECL is an area where significant judgments need to be applied and includes methodologies, models and variables. Details of the ECL measurement used by the Bank are described in Note 5. The following components of the ECL calculation have a significant impact on the amount of impairment allowance: definition of default, SICR, PD, EAD, LGD (for definitions see Note 5.1.1), macro-models and scenario analysis for impaired loans. The Bank regularly reviews and validates the models and model inputs to reduce any differences between estimates of expected credit losses and current experience with credit losses. The main source of uncertainty for the models is the expected economic development, which the Bank applies in its scenarios. For more information on uncertainties, see Note 5.

A 5% and 10% increase in the current experience with credit losses compared to the ECL estimates calculated as at 31 December 2020 would lead to an increase in impairment allowances as follows:

<i>in thousands of EUR</i>	Increase in ECL
Increase in LGD by 5%	480
Increase in PD by 5%	129
Total increase in LGD and PD by 10%	616

<i>in thousands of EUR</i>	Increase in ECL
Increase in LGD by 10%	961
Increase in PD by 10%	258
Total increase in LGD and PD by 10%	1 244

SICR (Significant Increase in Credit Risk). In order to determine whether there has been a significant increase in credit risk, the Bank compares default risk (inability to repay debt over the expected life of a financial instrument) as at the reporting date with default risk at the date of initial recognition. IFRS 9 requires an assessment of the relative increases in credit risk, rather than identifying the specific level of credit risk as at the reporting date. In making this assessment, the Bank considers a range of indicators, including behavioral indicators based on historical information as well as reasonable and supportable forward-looking information that is available without undue cost or effort. The most important judgments include identifying indicators of increases in credit risk prior to inability to pay and incorporating appropriate forward-looking information into the assessment, either at the individual instrument level or at the portfolio level. For the definition of SICR as specified by the Bank, see Note 5.

Business model and SPPI test. In determining the appropriate measurement category for debt financial instruments, the Bank applies two assessments: it assesses the business model for managing financial assets and implements the SPPI test based on the characteristics of contractual cash flows at initial recognition. The business model is assessed at a certain level of aggregation and the Bank has had to use judgment to determine the level at which the business model condition applies.

When assessing sales transactions, the Bank considers their frequency, timing and value in prior periods, the reasons for the sales and expectations regarding future sales activities. Sales transactions aiming to minimize potential losses due to increased credit risk are considered consistent with the “hold to collect” (“HtC”) business model. Other pre-maturity sales that do not relate to credit risk management activities may also be considered consistent with this business model, unless they occur frequently and are of insignificant value, either individually or in the aggregate. The Bank assesses the significance of sales transactions by comparing the value of realised sales with the value of the portfolio falling within the assessment of the business model during the average life of the given portfolio. The sale of financial assets under stress scenario or in response to an isolated event over which the Bank has no control that does not recur and which the Bank could not foresee is considered incidental and does not affect the principal intent of the business model and therefore not affecting the relevant financial assets classification.

The “hold to collect and sell” (“HtCS”) business model, the sale of financial assets is an integral part of achieving the business model objective, such as managing liquidity needs, achieving a specific interest income or aligning the duration of financial assets with the duration of liabilities financed by those assets.

During the transition to IFRS 9, the Bank divided its HTM portfolio into two smaller groups to reflect how these financial assets are managed: Some of these securities (approximately 55%) were identified as portfolios for liquidity

needs and classified as HtCS, and some were classified as HtC on the assumption that these securities would be sold only in the event of a stress scenario that could not be reasonably foreseen at the date of the transition.

The assessment of the SPPI criterion performed at the initial recognition of financial assets requires the use of significant estimates in quantitative testing and requires considerable judgment in deciding when to apply a quantitative test, which scenarios are reasonably possible and should be considered, as well as in interpreting the results of quantitative testing (i.e. determining what represents a significant difference in cash flows). These are the most important contractual features that are the subject of a qualitative or quantitative assessment of the SPPI criterion:

- i) **Modified time value of money:** In some, the time value of money component may be modified so that it does not provide remuneration only for the passage of time, e.g. when the contractual interest rate is regularly renewed but the frequency of this renewal does not correspond to the tenor of the interest rate. When assessing financial assets with a modified time value of money, the Bank compares the undiscounted contractual cash flows arising from the assessed asset with the cash flows from the "reference" financial instrument (cash flows which would be generated if the time value of money were not modified). The effect of the modified time value of money is recognised in each reporting period and cumulatively over the total useful life of the financial instrument. When performing the benchmark test, the Bank considers all scenarios that may reasonably occur. If the cash flows from both financial instruments differ significantly, the SPPI test was not passed.
- ii) **Terms and conditions that change the timing or amount of contractual cash flows:** For such financial assets, the Bank compares the contractual cash flows that may arise before and after the change, to assess whether both sets of cash flows meet the SPPI criterion. If the cash flows before and after the change differ significantly, the financial asset does not meet the SPPI criterion. In some cases, a qualitative assessment may be sufficient.

Examples of conditions that would pass the SPPI test:

- (a) If the terms and conditions include the early repayment option, the SPPI criterion is met when the prematurely paid amount essentially represents the contractual nominal value and the accrued contractual interest plus reasonable compensation for early termination,
- (b) For financial assets with early payment option, acquired at a discount to the contractual nominal value, the SPPI criterion is met when the fair value of the prepayment element is immaterial on the initial recognition,
- (c) If the contractual terms include initial interest-free or low-interest periods, the SPPI criterion is met when these terms are offered to clients as incentives and only lead to a reduction in the overall margin obtained by the Bank from the relevant loan products,
- (d) If the contractual conditions allow the Bank to freely adjust interest rates in response to certain macroeconomic, regulatory changes, or irrespective of the market situation, the SPPI criterion is met when the Bank concludes that competition in the banking sector and the practical ability of the borrower to refinance loans would prevent it from setting interest rates above the market level.

Write off policy. Financial assets are written off, in whole or in part, when the Bank has exhausted all practical means of recovering them and has concluded that the recovery cannot reasonably be expected. Determining cash flows, for which there is no reasonable expectation of recovery, requires judgment. Indicators that it is not reasonable to expect a recovery of cash flows are, in particular, the number of days past due, the status of the debtor (e.g. in liquidation, bankruptcy proceedings), fair value of collateral or whether execution activities are still ongoing.

4.2 Interest bonus

The Bank reports other customer accounts from the interest bonus. The interest bonus is paid to the client in accordance with the home savings contract after meeting the home savings conditions and specific conditions.

The Bank performs regular analysis and estimates to determine as accurately as possible the probability, timing and amounts relating to the probable loss of resources in each case, as described in note 6.9. If the amount of liabilities as an estimate of the decrease in resources differs from reality, the difference is reflected in the profit or loss of the relevant accounting period in which the difference was identified.

Based on historical behavior, the Bank estimates the number of customers who meet the required conditions and to whom an interest bonus will be paid. The total amount of the interest bonus is created over the home savings contract term using the effective interest rate method. Every year, the Bank reassesses the behavior of clients and the amount of the interest bonus commitment. The amount of the interest bonus liability is adjusted if there is a deviation in the client's behavior. The Bank settles the interest bonus liability in the year when the client meets the required criteria.

In prior years, the Bank has recorded a liability from the interest bonus for the Flexibil product. The share of home savings contracts in which the conditions for crediting the bonus were met is 29.4%. As at 31.12.2020, the Bank

assessed that the liability for the product Flexibil is created in a sufficient amount, the provision is gradually used (the same as at 31.12.2019).

The Bank recorded a liability from the interest bonus for the SPI and SPV products. If the share of contracts meeting the conditions for the bonus payment would be lower/higher by 10%, the profit as at 31.12.2020 would be higher/lower by EUR 6 thousand (31.12.2019: the profit would be higher/ lower by EUR 0.1 thousand).

The Bank recorded an interest bonus liability for short-term products BV2, BV1, B2V, BV3, BV4, B3V and B4V. In the event that the share of contracts meeting the conditions for the payment of the bonus would be lower/higher by 10%, the profit of as at 31.12.2020 would be higher/lower by EUR 8 thousand (31.12.2019: profit lower/higher by EUR 3 thousand).

The Bank recorded an interest bonus liability for savings products with an interest bonus of 2.5% in the first twelve months of the contract term. In the event that the share of contracts meeting the conditions for the bonus payment would be lower/higher by 10%, the profit as at 31.12.2020 would be higher/lower by EUR 5.4 thousand (31.12.2019: the profit would be higher/lower by EUR 7 thousand). The Bank introduced an interest bonus of 2.5% during 2015. The Bank recorded an interest bonus liability for savings products with an interest bonus of 3.5% and 3% in the first twelve months of the contract term. If the share of contracts meeting the conditions for the payment of the bonus would be lower/higher by 10%, the profit as at 31.12.2020 would be higher/lower with a 3.5% interest bonus by EUR 2 thousand (31.12.2019: the profit would be higher/lower by EUR 2 thousand) and with 3% interest bonus by EUR 4 thousand EUR (31.12.2019: the profit would be higher/lower by EUR 5 thousand).

The Bank recorded an interest bonus liability for savings products with an interest bonus of 2% in the first twelve months of the contract term. If the share of contracts meeting the conditions for the payment of the bonus would be lower/higher by 10%, the profit as at 31.12.2020 would be higher/lower by EUR 2 thousand (31.12.2019 would be higher/lower by EUR 2 thousand). The Bank introduced an interest bonus of 2% during 2018.

4.3 Financial instruments measurement

The accounting policies for determining fair value are described in Note 3.9.

The Bank determines fair values using the following hierarchy:

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

The fair values of financial assets and financial liabilities traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values by using valuation techniques. These valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and shares prices, foreign exchange rates, shares and share indices and expected volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

For more complex instruments, the Bank uses own valuation models, which are usually developed based on recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and certain investments in subsidiaries. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the

appropriate valuation model to be used, determination of expected future cash flows from the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

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

The disclosed amounts of financial instruments at fair value analysed according to fair value levels methodology are presented in Note 6.30 Fair value of financial instruments. Although the Bank believes that its estimates of fair value are reasonable, the use of different methodologies and assumptions could lead to different amounts of fair value.

A change in one or more assumptions used as a reasonable alternative to the assumption will have the following effects on the reported fair value measured using significantly unobservable inputs; should the market interest rate increase by 1%, the impact on the other components of the comprehensive income would be as follows:

in thousands of EUR
31.12.2020

	<i>Effect recognised in profit or loss</i>		<i>Effect recognised in other comprehensive income</i>	
	<i>Favourable</i>	<i>Unfavourable</i>	<i>Favourable</i>	<i>Unfavourable</i>
Financial assets FVOCI	0	0	0	2 109
	0	0	0	2 109

in thousands of EUR
31.12.2019

	<i>Effect recognised in profit or loss</i>		<i>Effect recognised in other comprehensive income</i>	
	<i>Favourable</i>	<i>Unfavourable</i>	<i>Favourable</i>	<i>Unfavourable</i>
Financial assets FVOCI	0	0	0	3 244
	0	0	0	3 244

5 FINANCIAL AND OPERATIONAL RISK MANAGEMENT

The Bank is exposed to the following risk due to use of financial instruments:

- credit risk
- liquidity risk
- market risk

Information on the exposure to each of the above risks; the objectives, policies and processes for measuring and managing risk is described below.

The Bank's risk management system is adjusted and implemented in accordance with NBS Measure No. 13/2010 on other types of risks, on the details of the risk management system of the Bank and the foreign branch of the Bank and which lays down what is meant by a sudden and unexpected change in market interest rates.

The Bank's risk management system includes:

- Supervisory board
- Board of Directors
- Internal control and internal audit department
- Risk management and controlling department
- professional departments in terms of organizational structure.

The day-to-day risk management is the responsibility of the Risk Management Department, which prepares a quarterly risk management report that includes and assesses all types of risks in the Bank, based on which the Board of Directors takes appropriate decisions and measures.

5.1 Credit risk

5.1.1 Credit risk management policy and limits

In order to mitigate credit risk related to loans provided to clients, the Bank determines:

- lending strategy within the business and financial plan,
- procedures for granting loans - assessing the creditworthiness of the borrower, assessing the degree of exposure to credit risk using an automated scoring model, loan register, Social Insurance Register and other information on clients restricting the provision of loans to individuals or a group of linked persons,
- the procedure for identifying, managing and recovering bad debts - the system of repayment and notification, the rules of internal and external debt recovery,
- the procedure for identifying, evaluating, monitoring and managing credit risk - classification and valuation of loans and advances and creation of loan loss allowance.

Limits. The Bank creates a structure of individual levels of credit risk to which it is exposed when it imposes restrictions on the amount of risk it assumes in relation to one borrower or group of borrowers, as well as to geographical areas. The limits set for credit risk levels are regularly approved by the Bank's management. The limits are regularly monitored and reassessed once a year (or more frequently).

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's or Fitch. These ratings are publicly available. These ratings and the corresponding PD intervals apply to investments in debt securities (bank, government and corporate bonds).

Commentary on the COVID crisis:

The Bank assessed the setting of limits to debtors as sufficient even in the current crisis situation. In 2020, the Bank was refinanced on inter-bank market therefore the Bank was almost exclusively in the role of the debtor to the counterparties - banks. Expectations: The Bank expects the same scenario also in 2021.

Rating description

- | | |
|------------|--|
| AAA | Liabilities with an AAA rating are considered to be the highest quality liabilities with the lowest level of credit risk. It is highly unlikely that the ability to meet its liabilities would be adversely affected by foreseeable events. |
| AA | Liabilities with an AA rating are considered to be of high quality and with very low credit risk. The ability to meet its liabilities is not significantly endangered by foreseeable events. |
| A | Liabilities are considered to be above average quality with low credit risk. However, the risk of reduced ability to meet its liabilities due to changes in the economic or business environment is more significant than in the case of better ratings. |
| BBB | BBB rated liabilities are assessed as medium risk and with a milder credit risk and they may have certain speculative characteristics. |
| BB | BB rated liabilities are considered speculative and are subject to significant credit risk. |
| B | Liabilities with a rating of B are considered speculative and have a high credit risk |

CCC	CCC rated liabilities are considered speculative with a bad situation and very high credit risk.
CC	CC rated liabilities are highly speculative and very prone to default.
C	C rated liabilities are the lowest rated liabilities with a low probability of repaying the principal.

5.1.2 **Creation of impairment allowances and determination of expected credit loss - definitions**

ECLs are a probability-weighted estimate of present value of future cash shortfalls (t. j. the weighted average of credit losses, where weightings represent the related risks that the ability to repay liabilities will be lost in a relevant period of time). Determining the ECL amount is objective and must be done by evaluating a range of possible outcomes.

The determination of the amount of ECL is based on four components used by the Bank:

Exposure at Default („EAD“) – an estimate of the exposure at the future default date, taking into account expected changes in exposure after the reporting date, including repayment of principal and interest, and expected drawings of cash funds.

Probability of Default (“PD“) – an estimate of the probability that a default will occur during a given period of time.

Loss Given Default (“LGD“) – an estimate of the loss that will result from the default. It is based on the difference between the amount of contractual cash flows due and the cash flows that the creditor is used to expect, including those from any collateral. It is usually expressed as a percentage of EAD.

Discount rate - a tool for discounting expected losses from the present value as at the reporting date. The discount rate represents the effective interest rate for a financial instrument or its approximate estimate.

Lifetime period - the maximum time during which the ECL should be determined. In loans with a fixed maturity, the useful life is equal to the remaining contractual period. In loan commitments and financial guarantee agreements, this is the maximum contractual period during which the entity has a present contractual obligation to extend the loan.

Lifetime ECL – losses resulting from all possible defaults during the remaining life of the financial instrument.

ECL for 12 months – that part of the lifetime ECL that represents the ECL arising from those defaults in a financial instrument that are probable within 12 months after the reporting date.

Forward looking information – information which includes key macroeconomic variables affecting credit risk and expected credit losses for each portfolio segment. A ubiquitous concept in determining the amount of ECL in accordance with IFRS 9 is that it should take into account forward-looking information. When applying forward-looking information on expected future developments, the Bank uses the assumptions of the National of the Bank of Slovakia on the economic development of the Slovak Republic in the coming years, focusing mainly on macroeconomic indicators such as unemployment, GDP and inflation. Using these assumptions, the Bank compiles scenarios used to project ECL. The influence of individual assumptions, the time shift of their performance or performance of assumptions form scenarios the number of which varies depending on the number of variables used. The resulting scenario used in the final ECL calculation is the one proven to be statistically the most accurate.

Credit Conversion Factor (“CCF“) – a coefficient that determines the probability of converting a loan commitment into a loan over a period of time. It can be calculated for a 12-month period or for the entire remaining period of the financial instrument. Based on the performed analysis, the Bank concluded that the CCF for 12 months and the CCF for the remaining life are identical.

Purchased or originated credit-impaired financial assets (‘POCI’) are those financial assets that are credit-impaired on initial recognition.

Low credit risk financial assets – financial assets that have an investment grade defined by external credit rating agencies or have corresponding ratings defined by internal risk models.

The assumption that there has been a significant increase in credit risk since initial recognition when financial assets are more than 30 days overdue has not been rebutted.

Default and credit-impaired assets - the loan is in default, i.e. exactly in line with the definition of an impaired loan when it meets one or more of the following criteria:

- The borrower is more than 90 days in delay with its contractual payments,
- The Bank sold the borrower's debt at a loss,

- International credit rating agencies have assigned a *Default* stage to an obligor,
- The borrower meets other quality criteria as defined by the Bank (declared bankruptcy on the borrower).

The above definition of default should be applied to all types of the Bank's financial assets. A financial instrument is no longer considered defaulted (i.e. it has recovered) when it no longer meets any of the default criteria for a predetermined period. This period was determined by an analysis considering the probability that the financial instrument will return to default after recovery, using different possible definitions of recovery.

Significant Increase in Credit Risk („SICR“) – the assessment of the SICR is performed on an individual and portfolio basis. In case of debt securities reported at AC or FVOCI, the SICR is assessed on an individual basis by monitoring the triggers listed below. In loans provided to natural or legal persons, the SICR is assessed both on an individual basis (in terms of defined indicators of credit risk growth) and on a portfolio basis. The Risk Management Department of the Bank monitors the criteria used to identify the SICR and regularly reviews their appropriateness.

The Bank considers that there has been a significant increase in credit risk for a financial instrument when one or more of the following quantitative, qualitative criteria have been met.

In case of interbank operations and bonds:

- 30 days overdue
- Assignment of the risk level "Special monitoring"
- Based on other external and internal indicators.

In case of loans granted to legal persons and natural persons:

- a delay in repayment of the claim of at least 30 days ("backstop"), or
- a delay of 0 days if additional quality criteria are met (no payments to the savings account regarding related to loans; the loan is subject to collection process, based on the decision of Receivables Committee), or
- there are signs of an increase in credit risk since the loan was granted.

In connection with the corona crisis, the Bank provided deferral of installments in accordance with the "lex corona" for clients who requested the deferral and fulfilled the conditions stipulated by law. The clients may request the Bank to defer payments for a period not exceeding nine months. The Bank is obliged to allow deferral of installments if the legal requirements are met. The debtor does not lose the obligation to pay interest for the period of deferred payments and interest is accrued even during the duration of deferred payments. This delay did not have a negative impact on the client's risk profile in the credit register. The amount of deferred payments provided under the "lex corona" is specified in point 5.1.2.1.

The Bank has decided to take a conservative approach to the mentioned portfolio and its classification and has classified all these loans in stage 2. The portfolio amount and the number of these applications are subject to regular monitoring of the Bank's Board of Directors. Due to the economic situation in Slovakia caused by the pandemic, the Bank also conservatively assessed the conditions for loans approval, especially uncollateralised loans. The Bank monitors in detail the level of credit risk in the portfolio. During 2020, the Bank did not record a significant increase in non-performing loans. As a potential risk for 2021, the Bank perceives the possibility of worse repayment of loans with deferrals according to the "lex corona".

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If the exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether this indicator still exists or has changed. The Bank also calls this process a probation or cure period.

Impairment allowance determination (ECL) – description of technical procedures of estimation

General principle

For non-POCI financial assets, the amount of the ECL is generally determined based on the risk of default over one or two different periods of time, depending on whether or not the borrower's credit risk has increased significantly since initial recognition. This approach can be summarized in a three-stage model for determining ECL amount:

- Stage 1 - A financial instrument that is not impaired on initial recognition and has its credit risk at a constant level since initial recognition, impairment allowance on ECL is based on ECL for 12 months.
- Stage 2 - If significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired, impairment allowance on ECL is based on ECL for remaining useful life.
- Stage 3 - If the financial instrument is impaired, the financial instrument is then moved to Stage 3 and impairment allowance on ECL is based on ECL for remaining useful life.

The Bank performs assessments on an individual basis for individually significant loans.

The following are considered significant loans in WSS:

- Loans to clients – legal persons mostly for the purposes of construction of apartment houses in accordance with Act No. 310/1992 Coll. on home savings as amended, regardless of the target amount
- Loans to clients - legal persons with a target amount over EUR 350 thousand
- Loans to clients - natural persons with a target amount over EUR 200 thousand
- Investments in the money and capital markets
- Loans to subsidiaries

The Receivables Committee is always responsible for the individual assessment of loans. The ALCO Committee is responsible for the individual assessment of investments in the money and capital markets.

The Bank performs assessments based on external assessments of the following types of loans: interbank loans, securities issued by banks, governments and legal entities.

Assessment principles - Individual assessments of ECL are made by estimating credit losses individually as an assessment based mainly on professional judgment (also called individual assessment) or on a portfolio basis for each loan based on a defined methodology that takes into account the characteristics of the loan (also called standardized calculation). Judgments are regularly tested to reduce the difference between estimates and actual losses. The analysis of the ECL according to the models for calculating the impairment allowance and the degree of ECL is given in Note 5.1.1. The classification of these items can be found in Note 5.1.2.3.

In general, the ECL is obtained by multiplying the following credit risk parameters: EAD, PD and LGD (their definitions are given above). Below is the general procedure used to calculate the ECL. It may be applied to products assessed on a portfolio basis as well as to products for which the Bank has assessed credit risk based on borrower-specific information.

Impairment allowances are calculated using the following formula:

$$OP_t = \sum_{i=t}^{t+n} \frac{(EaD_i + Undrawn\ amount * CCF_i) * PD_i * LGD_i}{(1 + UrS)^i}$$

where:

LGDi – Loss Given Default at time i

EADi – Exposure at Default at time i

PDi – Probability of Default in the period between ia i+1 (cannot exceed 100%)

CCFi represents a proportion of the loan commitment, which will be transformed into a loan over the next 12 months

ECLs are determined by predicting the credit risk parameters (EAD, PD and LGD) for each future month over the duration of each individual exposure.

Principles of calculation of credit risk parameters

EADs are determined based on an expected payment profile that varies by product type:

- In amortised products, the EAD is based on the contractual instalments to be paid by the borrower over 12 months or the entire duration of the loan. In loan commitments, the EAD is forecasted by taking the current drawn balance and adding the 'credit conversion factor' which represents the expected drawing of the remaining limit at the time of default. These assumptions vary depending on the type of product and the current use of the limits.
- Two types of PD are used to calculate the ECL - PD for 12 months and PD for the remaining life:
- PD for 12 months - the estimated probability of default over the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate the ECL for 12 months. The 12-month PD assessment is based on the most up-to-date data on past defaults and adjusted for forward-looking information on expected future developments.
- PD for remaining life - the estimated probability of default during the remaining life of the financial instrument. This parameter is used to calculate the ECL over the remaining duration for Stage 2 or Stage 3 exposures. The assessment of the PD over the remaining life shall be based on the most current data available on past defaults and adjusted for forward-looking information.

To calculate PD, the Bank uses various statistical procedures depending on the segment and type of product, such as extrapolation of 12-month PD based on migration matrices, calculating PD curves for remaining life based on

past default data and a vintage model. For PD calculations for the remaining life, the Bank uses data on past defaults and extrapolation of trends for longer periods during which data on defaults were not available.

LGD represents the Bank's expectation of the loss from a defaulted exposure. LGDs vary depending on the type of counterparty and the availability of collateral or other loan support.

LGDs for 12 months and LGDs for remaining life are determined based on factors that affect expected yields after a default.

The procedure for determining the amount of LGD can be divided into three parts:

- determining the LGD based on the specific characteristics of the collateral
- portfolio-based LGD calculation based on yield statistics
- individually defined LGD depending on various factors and scenarios.

There were no significant changes in estimation techniques during the reporting period and no significant assumptions were made. For the portfolio secured by real estates the "Management Add-on" for LGD was defined to reflect worsening economic situation.

Determining the amount of ECL in off-balance sheet financial instruments

The determination of the amount of ECL from off-balance sheet accounts is formed as a proportion of the total ECL, as the calculation of ECL itself includes both balance sheet and off-balance sheet (undrawn credit lines) part.

Principles of assessment based on external ratings - the principles of calculating ECL based on external ratings are the same as for their assessment on a portfolio basis. As clients have a defined external credit rating, the credit risk parameters (PD and LGD) could be taken from the default and loss statistics published by international rating agencies.

Forward-looking information incorporated into ECL models. ECL calculations incorporate forward-looking information on expected future developments. The Bank has performed analysis in the past and identified the most important economic variables affecting credit risk and the ECL for each portfolio. Assumptions concerning economic development are based on development forecasts, which are regularly published by the NBS.

Backtesting – the Bank regularly reviews its methodology and assumptions to reduce any discrepancies between estimates and current loan losses. Such back-testing is performed at least once a year or if the conditions defined in the internal regulations of the Bank are met.

The results of the backtesting of the ECL methodology are presented to the Bank's management and further steps to fine-tune the models and assumptions are defined following discussions between the responsible personnel.

Modification of financial assets

The risk of default of assets after modification is assessed as at the reporting date and compared with the risk under the original conditions at the time of initial recognition, when the modification is not significant and thus does not result in derecognition of the original asset (see Note 3.7). The Bank monitors the subsequent performance of modified assets. At the same time, it can be concluded that credit risk has significantly improved after the restructuring, so that assets can be transferred from Stage 3 or Stage 2 (ECL for remaining useful life) to Stage 1 (ECL for 12 months). However, this only applies to assets that have generated returns in accordance with the new terms and conditions for at least six consecutive months. The Bank continues to monitor whether there has been a subsequent significant increase in credit risk in relation to such assets by using specific models for modified assets.

5.1.2.1 Maximum credit risk exposure

The following table shows the gross carrying amount and impairment allowances for expected credit losses, or from impairment of loans and intermediate loans provided to customers and measured at amortised cost as at 31 December 2020 and 31 December 2019, respectively:

<i>in thousands of EUR</i>	31 December 2020			31 December 2019		
	Gross carrying amount	Impairment allowances for ECL	Carrying amount	Gross carrying amount	Impairment allowances for ECL	Carrying amount
Housing loans	13 398	-419	12 979	14 526	-488	14 038
Intermediate loans – Natural persons	322 435	-15 432	307 003	322 400	-14 926	307 474
Intermediate loans – Legal person	49 063	0	49 063	48 889	0	48 889
<i>Housing loans and intermediate loans total</i>	384 896	-15 851	369 045	385 815	-15 414	370 401

The total carrying amount for loans and intermediate loans provided to clients and measured at amortised cost as at 31 December 2020 was in the amount of EUR 369 045 thousand (31.12.2019: EUR 370 401 thousand).

As at 31 December 2020, the Bank recognised loan commitments in the gross amount of EUR 7 104 thousand (31.12.2019: EUR 8 493 thousand). The Bank manages credit risk from provided unconditioned loan commitments by monitoring their amount and as part of the loan approval process. As at 31 December 2020, the Bank recognises impairment allowance on expected losses for the loan commitments in the amount of EUR 14 thousand (31.12.2019: EUR 16 thousand).

The following table shows the gross carrying amount and impairment allowances for expected credit losses, or from impairment to loans and intermediate loans provided to clients and measured at amortised cost according to the stage of ECL as at 31 December 2020:

<i>in thousands of EUR</i>	Stage 1	Stage 2	Stage 3	Total
Housing loans	12 138	740	519	13 397
Intermediate loans – Natural persons	242 096	61 172	19 169	322 437
Intermediate loans – Legal persons	48 374	689	0	49 063
Impairment allowances	-683	-2 334	-12 834	-15 851
<i>Housing loans and intermediate loans total</i>	301 924	60 267	6 854	369 045

The following table shows the gross carrying amount and impairment on expected losses, or from impairment to loans and intermediate loans provided to clients and measured at amortised cost according to the stage of ECL as at 31 December 2019.

<i>in thousands of EUR</i>	Stage 1	Stage 2	Stage 3	Total
Housing loans	13 285	620	622	14 527
Intermediate loans – Natural persons	285 912	16 652	19 835	322 400
Intermediate loans – Legal persons	48 889	0	0	48 889
Impairment allowances	-1 078	-1 049	-13 287	-15 414
<i>Housing loans and intermediate loans total</i>	347 008	16 223	7 170	370 401

Postponement of payments due to Covid:

As at 31 Decembru 2020 the Bank evidenced the following amount and number of loans with provided moratoria as per lex corona (not yet expired):

<i>in thousands of EUR</i>	31 December 2020
Number	827
Gross carrying amount (Stage 2)	37 984

The following table shows the gross carrying amount and impairment allowances for expected credit losses, or from impairment to loans and intermediate loans provided to clients and measured at amortised cost according to the impairment allowance models and the stages as at 31 December 2020:

<i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Standardized calculation	302 607	62 601	16 622	381 829	681	3 054	9 248	12 983
Individual assessment	0	0	3 066	3 066	0	0	2 868	2 868
Housing loans and intermediate loans total	302 607	62 601	19 688	384 896	681	3 054	12 116	15 851

The following table shows the gross carrying amount and impairment on expected losses, or from impairment to loans and intermediate loans provided to clients and measured at amortised cost according to the impairment allowance models and the stages at 31 December 2019:

<i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Standardized calculation	339 342	17 001	20 917	377 259	1 091	1 068	9 172	11 315
Individual assessment	3 899	242	4 414	8 556	0	0	4 099	4 099
Housing loans and intermediate loans total	343 241	17 243	25 331	385 815	1 091	1 068	13 271	15 414

5.1.2.2 Collateral

Effect of collateral:

<i>in thousands of EUR</i> 31.12.2020	Loans exceeding collateral received		Loans below the collateral received	
	<i>Value of the loan</i>	<i>Fair value of the collateral</i>	<i>Value of the loan</i>	<i>Fair value of the collateral</i>
Housing loans	10 537	0	3 232	13 890
Intermediate loans - Natural persons	90 626	6 492	231 439	323 204
Intermediate loans - Legal entities	49 063	0	0	0
Total	150 227	6 492	234 669	337 094

<i>in thousands of EUR</i> 31.12.2019	Loans exceeding collateral received		Loans below the collateral received	
	<i>Value of the loan</i>	<i>Fair value of the collateral</i>	<i>Value of the loan</i>	<i>Fair value of the collateral</i>
Housing loans	11 669	0	3 280	14 264
Intermediate loans - Natural persons	98 863	7 086	223 113	310 192
Intermediate loans - Legal entities	48 889	0	0	0
Total	159 422	7 086	226 393	324 456

The published fair value of collateral represents the fair value of the property, the amounts saved in related savings accounts and other escrow deposits. It does not include the value of guarantees by other persons, as it was practically impossible to determine the fair value of a large number of individual guarantees accepted by the Bank.

The following table shows the gross carrying amount for collateral secured loans and impairment allowances for expected credit losses measured at amortized cost according to loan to value and the stages as at 31 December 2020:

Collateral secured Loans <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LTV ≤ 50%	28 264	3 601	277	32 142	12	24	15	51
LTV 51-70%	37 993	7 012	796	45 801	42	109	104	255
LTV 71-80%	77 667	16 282	865	94 814	173	674	199	1 046
LTV 81-90%	44 718	13 189	1 552	59 459	156	799	569	1 524
LTV > 90%	5 319	4 256	2 570	12 145	21	275	1 260	1 556
Collateral secured loans total	193 961	44 340	6 060	244 361	404	1 881	2 147	4 432
Other type of security	108 646	18 261	13 628	140 535	279	453	10 687	11 419
All Loans total	302 607	62 601	19 688	384 896	683	2 334	12 834	15 851

The following table shows the gross carrying amount for collateral secured loans and impairment allowances for expected credit losses measured at amortized cost according to LTV and the stages as at 31 December 2019:

Collateral secured Loans <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LTV ≤ 50%	31 001	1 094	396	32 491	21	20	28	69
LTV 51-70%	39 767	1 543	1 139	42 449	61	56	178	295
LTV 71-80%	80 905	3 722	1 018	85 645	186	231	239	656
LTV 81-90%	56 540	3 929	1 917	62 386	173	334	609	1 116
LTV > 90%	9 513	1 020	2 359	12 892	36	91	1 026	1 153
Collateral secured Loans Total	217 726	11 308	6 829	235 863	477	732	2 080	3 289
Other type of security	130 360	5 964	13 628	149 952	601	317	11 207	12 125
All Loans Total	348 086	17 272	20 457	385 815	1 078	1 049	13 287	15 414

The following table shows the gross carrying amount measured at amortized cost and collateral value according to stages as at 31 December 2020 and 31 December 2019, respectively:

Collateral secured Loans <i>in thousands of EUR</i>	2020		2019	
	Carrying amount	Collateral	Carrying amount	Collateral
Stage 1	193 961	279 397	217 726	308 279
Stage 2	44 340	57 278	11 308	14 954
Stage 3	6 060	6 911	6 829	8 309
Secured Total	244 361	343 586	235 863	331 542
Other types of security	140 535	0	149 952	0
All Loans Total	384 896	343 586	385 815	331 542

5.1.2.3 Impairment allowances for expected losses

The following table shows the changes in the impairment allowances for expected credit losses and in the gross carrying amount for loans and intermediate loans provided to clients between the first and last day of the reporting period:

Housing loans	Impairment allowances for ECL				Gross carrying amount			
	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total
Balance as at 1.1.2020	29	6	454	489	13 285	620	622	14 527
Transfer to ECL for remaining useful life: from Stage 1 to Stages 2 and 3	-1	1	5	5	-350	283	17	-50
Transfer to impaired category: from Stage 2 to Stage 3	0	-1	11	10	0	-37	37	0
Transfer to ECL for 12 months from Stages 2 and 3 to Stage 1	0	-2	-23	-25	177	-172	-67	-62
Transfer from Stage 3 to Stage 2	0	0	-17	-17	0	52	-67	-15
new loans	6	1	12	19	3 583	104	36	3 723
cancelled loans	-5	0	-19	-24	-2 157	-61	-29	-2 247
other movements (no Stage transfer)	-11	2	-29	-38	-2 400	-49	-30	-2 479
Balance as at 31.12.2020	18	7	394	419	12 138	740	519	13 397

Transfers to/from stages of financial assets represent an increase or decrease in loss allowance as reported in the amount of loss allowance corresponding to the appropriate stage.

New loans are those that were originated during the current year (the recognition of a new loss allowance reported at the stage under which a financial asset was classified at the end of the reporting period)

Canceled loans are those that existed at the beginning of the year but do not exist at the end.

Other movements include loss allowance movement on financial assets that existed at the beginning and end of the year and for which there were no transfers during the period.

in thousands of EUR

	Impairment allowances for ECL				Gross carrying amount			
Housing loans	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total
Balance as at 1.1.2019	26	3	529	558	12 509	419	834	13 762
Transfer to ECL for remaining useful life: from Stage 1 to Stages 2 a 3	0	1	5	6	-137	91	12	-34
Transfer to impaired category : from Stage 2 to Stage 3	0	0	6	6	0	-38	33	-5
Transfer do ECL for 12 months from Stages 2 and 3 to Stage 1	0	-2	-3	-5	147	-158	-20	-31
Transfer from Stage 3 to Stage 2	0	3	-26	-23	0	244	-272	-28
new loans	13	2	28	43	5 234	189	155	5 578
cancelled loans	-4	-1	-73	-78	-2 072	-107	-88	-2 267
other movements (no Stage transfer)	-6	0	-12	-18	-2 396	-20	-32	-2 448
Balance as at 31.12.2019	29	6	454	489	13 285	620	622	14 527

in thousands of EUR

	Impairment allowances for ECL				Gross carrying amount			
Intermediate loans natural persons and employee loans	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total
Balance as at 1.1.2020	1 049	1 043	12 833	14 925	285 912	16 652	19 835	322 400
Transfer to ECL for remaining useful life: from Stage 1 to Stages 2 a 3	-196	1 325	320	1 449	-45 500	44 670	1 048	218
Transfer to impaired category : from Stage 2 to Stage 3	0	-92	847	755	0	-2 568	2 529	-39
Transfer do ECL for 12 months from Stages 2 and 3 to Stage 1	11	-108	-210	-307	3 220	-3 116	-288	-184
Transfer from Stage 3 to Stage 2	0	66	-877	-811	0	1 846	-2 229	-383
new loans	200	232	24	456	73 552	5 765	114	79 431
cancelled loans	-254	-64	-904	-1 222	-79 534	-2 114	-1 157	-82 805
other movements (no Stage transfer)	-145	-75	407	187	4 445	37	-683	3 799
Balance as at 31.12.2020	665	2 327	12 440	15 432	242 096	61 172	19 169	322 437

in thousands of EUR

Intermediate loans natural persons and employee loans	Impairment allowances for ECL				Gross carrying amount			
	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total
Balance as at 1.1.2019	1 043	986	12 672	14 701	267 263	14 997	19 268	301 528
Transfer to ECL for remaining useful life: from Stage 1 to Stages 2 a 3	-58	328	944	1 214	-11 723	9 163	2 568	8
Transfer to impaired category : from Stage 2 to Stage 3	0	-128	1 121	993	0	-3 009	2 998	-11
Transfer do ECL for 12 months from Stages 2 and 3 to Stage 1	31	-217	-226	-412	6 544	-5 762	-731	51
Transfer from Stage 3 to Stage 2	0	55	-360	-305	0	1 152	-1 192	-40
new loans	254	74	85	413	74 477	1 709	251	76 437
cancelled loans	-204	-42	-1 430	-1 676	-55 172	-1 568	-2 019	-58 759
other movements (no Stage transfer)	-17	-13	27	-3	4 523	-30	-1 308	3 185
Balance as at 31.12.2019	1 049	1 043	12 833	14 925	285 912	16 652	19 835	322 400

in thousands of EUR

Intermediate loans legal entities	Impairment allowances for ECL				Gross carrying amount			
	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total
Balance as at 1.1.2020	0	0	0	0	48 889	0	0	48 889
Transfer to ECL for remaining useful life: from Stage 1 to Stages 2 a 3	0	0	0	0	-488	689	0	201
Transfer to impaired category : from Stage 2 -to Stage 3	0	0	0	0	0	0	0	0
Transfer do ECL for 12 months from Stages 2 and 3 to Stage 1	0	0	0	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	0	0	0	0	0	0	0
new loans	0	0	0	0	3 764	0	0	3 764
cancelled loans	0	0	0	0	-4 378	0	0	-4 378
other movements (no Stage transfer)	0	0	0	0	587	0	0	587
Balance as at 31.12.2020	0	0	0	0	48 374	689	0	49 063

in thousands of EUR

Intermediate loans legal entities	Impairment allowances for ECL				Gross carrying amount			
	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total	Stage 1 ECL for 12 months	Stage 2 ECL for remaining useful life	Stage 3 ECL for remaining useful life	Total
Balance as at 1.1.2019	0	0	0	0	48 213	97	0	48 310
Transfer to ECL for remaining useful life: from Stage 1 to Stages 2 a 3	0	0	0	0	0	0	0	0
Transfer to impaired category : from Stage 2 -to Stage 3	0	0	0	0	0	0	0	0
Transfer do ECL for 12 months from Stages 2 and 3 to Stage 1	0	0	0	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	0	0	0	0	0	0	0
new loans	0	0	0	0	5 074	0	0	5 074
cancelled loans	0	0	0	0	-5 526	-97	0	-5 623
other movements (no Stage transfer)	0	0	0	0	1 128	0	0	1 128
Balance as at 31.12.2019	0	0	0	0	48 889	0	0	48 889

The most significant movements are described in the table below:

- Transfers between stage 1, or stage 2 and stage 3 due to balances with significant increases (or decreases) in credit risk or impairment during the accounting period, and resulting in a “step up” (or “step down”) between ECL for 12 months and ECL for remaining useful life,
- Other impairment allowances for new financial instruments recognised during the accounting period, as well as release of financial instruments derecognised during the accounting period,
- The impact of determining the amount of ECL due to changes in model assumptions, including changes in PDs, EADs and LGDs during the accounting period, which result from regular replenishment of model inputs; and
- Amortisation of impairment allowances on assets that were depreciated during the accounting period.

The following table shows the gross carrying amount for housing loans and impairment allowances for expected credit losses measured at amortized cost according to days past due and the stages as at 31 December 2020:

Housing Loans <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
DPD 0	12 138	395	9	12 542	18	2	2	22
DPD 30	0	190	2	192	0	2	1	3
DPD 60	0	155	19	174	0	3	4	7
DPD ≥ 90	0	0	489	489	0	0	387	387
Housing Loans Total	12 138	740	519	13 397	18	7	394	419

The following table shows the gross carrying amount for housing loans and impairment allowances for expected credit losses measured at amortized cost according to days past due and the stages as at 31 December 2019:

Housing Loans <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
DPD 0	13 285	153	57	13 495	29	1	21	51
DPD 30	0	268	40	308	0	5	6	11
DPD 60	0	199	45	244	0	0	7	7
DPD ≥ 90	0	0	480	480	0	0	420	420
Housing Loans Total	13 285	620	622	14 527	29	6	454	489

The following table shows the gross carrying amount for intermediate and employee loans of natural persons and impairment allowances for expected credit losses measured at amortized cost according to days past due and the stages as at 31 December 2020:

Intermediate Loans Natural Persons and Employee Loans <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
DPD 0	242 096	55 686	745	298 527	665	2 088	291	3 044
DPD 30	0	4 294	175	4 469	0	187	55	242
DPD 60	0	1 192	461	1 653	0	52	134	186
DPD ≥ 90	0	0	17 788	17 788	0	0	11 960	11 960
Intermediate Loans Natural Persons and Employee Loans Total	242 096	61 172	19 169	322 437	665	2 327	12 440	15 432

The following table shows the gross carrying amount for intermediate and employee loans of natural persons and impairment allowances for expected credit losses measured at amortized cost according to days past due and the stages as at 31 December 2019:

Intermediate Loans Natural Persons and Employee Loans <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
DPD 0	285 912	9 888	1 192	296 992	1 049	537	436	2 022
DPD 30	0	5 146	720	5 866	0	380	184	564
DPD 60	0	1 618	543	2 161	0	126	132	258
DPD ≥ 90	0	0	17 380	17 380	0	0	12 081	12 081
Intermediate Loans Natural Persons and Employee Loans Total	285 912	16 652	19 835	322 400	1 049	1 043	12 833	14 925

The following table shows the gross carrying amount for intermediate loans of legal entities and impairment allowances for expected credit losses measured at amortized cost according to days past due and the stages as at 31 December 2020:

Intermediate Loans Legal Entities <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
DPD 0	48 374	689	0	49 063	0	0	0	0
DPD 30	0	0	0	0	0	0	0	0
DPD 60	0	0	0	0	0	0	0	0
DPD ≥ 90	0	0	0	0	0	0	0	0
Intermediate Loans Legal Entities Total	48 374	689	0	49 063	0	0	0	0

The following table shows the gross carrying amount for intermediate loans of legal entities and impairment allowances for expected credit losses measured at amortized cost according to days past due and the stages as at 31 December 2019:

Intermediate Loans Legal Entities <i>in thousands of EUR</i>	Gross carrying amount				Impairment allowances for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
DPD 0	48 889	0	0	48 889	0	0	0	0
DPD 30	0	0	0	0	0	0	0	0
DPD 60	0	0	0	0	0	0	0	0
DPD ≥ 90	0	0	0	0	0	0	0	0
Intermediate Loans Legal Entities Total	48 889	0	0	48 889	0	0	0	0

The following table shows movement of impairment allowances for expected credit losses measured at amortized cost as at 31 December 2020 and as at 31 December 2019 through Separate statement of profit or loss of the year 2020 and year 2019:

Impairment allowances from expected credit losses (in thousands of EUR)	2020	2019
As of 1 January	15 430	15 282
Creation/release of impairment allowances for loans and advances to customers through expenses	1 460	2 076
Creation/release of impairment allowances for loans and advances to customers in stage 3 through interest income	1 654	1 053
Write off receivables from non-performing loans and intermediate loans	-2 678	-2 981
As of 31 December	15 865	15 429

5.1.3 Debt securities investments

a) Investments to debt securities measured at FVOCI

The table below presents an analysis of the credit risk exposure of debt securities measured at FVOCI as at 31 December 2020 and 31 December 2019, for which an impairment allowance for ECL is recognised based on credit risk stages. For a description of the credit risk assessment system used by the Bank and the approach it applies to determining the amount of the ECL, including the definition of default and SICR as used for debt securities measured at FVOCI, see Note 5.1.1.

Carrying amount of the following debt securities measured at FVOCI as at 31 December 2020 and as at 31 December 2019 represents maximum credit risk exposure of the Bank:

<i>in thousands of EUR</i>	31 December 2020				31 December 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Government bonds	46 060	0	0	46 060	68 783	0	0	68 783
Bank bonds	1 027	0	0	1 027	1 053	0	0	1 053
Other than bank bonds	0	0	0	0	0	0	0	0
Impairment allowances	-8	0	0	-8	-26	0	0	-26
Total debt securities measured at FVOCI	47 079	0	0	47 079	69 810	0	0	69 810

Debt securities measured at FVOCI are not secured by collateral.

As at 31 December 2020, debt securities measured at FVOCI in carrying amount of EUR 39 453 thousand were secured to the benefit of third parties as collateral (31 December 2019: EUR 40 359 thousand). Impairment allowance for such securities as at 31 December 2020 was created in the amount of EUR 6 thousand (31.12.2019: EUR 15 thousand). These securities serve as collateral for refinancing with the European Central Bank.

Between the first and subsequent day of the reporting period, there were no transfers between stages in the impairment allowance on expected credit losses and in the gross carrying amount for debt securities measured at FVOCI.

b) Investments in debt securities measured at amortised cost

The following table contains an analysis of debt securities measured at amortised cost by credit quality as at 31 December 2020 and as at 31 December 2019 based on credit risk stages and for the purposes of determining the amount of ECL, the table provides balances according to the three stages. For a description of the credit assessment system used by the Bank and the approach it applies to determining the amount of the ECL, including the definition of default and significant increase in credit risk (SICR) as used for debt securities measured at amortised cost, see Note 5.1.1.

Carrying amount of the following debt securities measured at amortised cost as at 31 December 2020 and as at 31 December 2019 represents maximum credit risk exposure of the Bank:

<i>in thousands of EUR</i>	31 December 2020				31 December 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Government bonds	11 419	0	0	11 419	16 616	0	0	16 616
Bank bonds	4 017	0	0	4 017	4 014	0	0	4 014
Other than bank bonds	2 058	0	0	2 058	2 065	0	0	2 065
Impairment allowances	-5	0	0	-5	-8	0	0	-8
Total debt securities measured at amortised cost	17 489	0	0	17 489	22 687	0	0	22 687

Debt securities measured at amortised cost are not secured by the collateral.

As at 31 December 2020 and as at 31 December 2019 there were no debt securities measured at amortised cost secured to the benefit of third parties as collateral.

Between the first and subsequent day of the reporting period, there were no transfers between stages in the impairment allowance on expected losses and in the gross carrying amount for debt securities measured at amortised cost.

Credit quality of financial assets which are not overdue and not impaired, except for loan receivables:

<i>in thousands of EUR</i>	31.12.2020		31.12.2019	
	Amount	Rating*	Amount	Rating*
Settlement account Target2 – NBS	39	A	491	A+
Current accounts ČSOB	79	BBB	269	BBB
Current accounts Prima banka	0	-	0	-
Current accounts Tatra banka	8	BBB+	13	BBB+
Current accounts UniCredit Bank Slovakia	253	-	345	-
Current accounts Poštová banka	54	-	117	-
Total	433		1 235	
Mortgage bonds VUB	1 995	A	1 991	A
Bank bond Leeds BS	1 027	A-	1 053	A-
Bank bond Rabobank	2 022	AA-	2 023	AA-
Bond Daimler	2 058	BBB+	2 065	A-
Government bonds FVOCI – Slovak Republic	39 453	A	62 234	A+
Government bonds FVOCI – Poland	4 354	A-	4 342	A-
Government bonds FVOCI – Spain	2 253	A-	2 207	A-
Government bonds AC – Slovak Republic	11 419	A	16 616	A+
Total	64 581		90 466	

* Rating by: Moody's, Fitch, Standard and Poor's

Categorisation of average PDs according to the rating of financial assets, except for receivables from loans:

<i>In thousands of EUR</i>	31 December 2020		31 December 2019	
	31.12.2020 Amount	Average PD	31.12.2019 Amount	Average PD
AAA to AA-	2 022	0.07%	2 023	0.06%
A+ to A-	60 540	0.05%	90 999	0.08%
BBB+ to BBB-	2 145	0.21%	282	0.25%
No rating	307	1.50%	462	1.49%

5.1.4 Policies of the Bank when recovering receivables from debtors

In order to maintain the maximum efficiency of the debt recovery process, each case is assessed individually; the real options of the debtor and the persons who secured his obligation are considered. By carefully selecting the appropriate form of debt collection, the Bank strives for the timely elimination of later negative consequences associated with the default of the debtor.

Internal debt collection first consists of a reminder process and subsequently there are more radical methods of recovery aimed for collection of receivables, e.g. through court, in the form of execution or in the form of a voluntary auction of pledged property, which is then carried out on behalf of the Bank by an authorized law firm.

In the multi-stage reminder process, both the debtor and the guarantors are contacted by telephone and in writing in order to pay the outstanding monthly instalments, and by prompt payment they can continue to pay their obligation properly. In the event of non-compliance with these reminders, the Bank proceeds with the recovery of its receivables depending on the method of securing them:

- receivables secured by a guarantor - judicial enforcement,
- receivables secured by a notarial record on the recognition of an obligation and consent to execution in the event of default - recovery in execution proceedings,
- receivables secured by a lien on a property - recovery in the form of a voluntary auction of the pledged property.

If the debtor is willing to pay the liability to be recovered (even during judicial enforcement or execution), the Bank allows him to pay it based on an extraordinary repayment schedule.

Extraordinary repayment calendar outside the court or execution proceedings

If immediately after withdrawing from the loan agreement or by sending a call for immediate repayment of due loans, the client expresses a willingness to pay his obligations, but the financial situation does not allow him to repay the debt in a lump sum, it is possible to agree on an extraordinary repayment schedule based on the client's request. If the client does not comply with this newly agreed repayment calendar, the Bank or the law firm authorized by the Bank may withdraw from it and at the same time proceed to court or to enforcement of the debt.

Court proceedings

The Bank approaches court proceedings if the client has not been approved for an extraordinary repayment schedule and if a notarial record is not available as a writ of execution. In such case, on behalf of the Bank, the authorized law firm will send an application for an order for payment to the competent court.

An attempt at non-execution reconciliation

In exceptional cases, after the validity of the court decision, if, based on the course of the court proceedings, it is probable that the claim will be paid without execution, an authorized law firm may, on behalf of the Bank, call on the debtors for non-execution settlement. If the client responds, a special repayment schedule can be agreed in writing.

Execution proceedings

The Bank enforces receivables through court executors in accordance with the Execution Rules. An execution is filed if the court decision issued in favor of the Bank is valid and enforceable, or if a notarial record is available as a writ of execution in a given case in accordance with the legislative of the Slovak Republic.

Voluntary auction

The Bank also enforces receivables through auctions in accordance with the Act on voluntary auctions. This method is applied to receivables secured by a lien in favor of the Bank. The auction is carried out under a contract on performance, concluded between the Bank and the auctioneer. The contract must contain the requisites stipulated by law. The auction procedure must be published in the central notarial register of auctions.

Enforcement through agents

Principals - third parties under mandate agreements perform activities on behalf of the Bank aimed at settling the Bank's receivables from obligated persons. The activities include the implementation of systematic written and telephone calls to liable persons, if necessary, performing house calls, submitting payment orders or execution orders.

5.1.5 Concentration of credit risk

The concentration of credit risk arises due to the existence of credit claims with similar economic characteristics that affect the ability of the borrower to meet his obligations.

Pursuant to the Act No. 310/1992 Coll. on home savings, as amended, the Bank may provide housing loans only to home-savers, which may be:

- a natural person who concludes a home savings contract with home savings bank or for whose benefit a home savings contract is concluded,
- the association of flat owners established in accordance with a special regulation, which concludes a home savings contract with the home savings bank or for the benefit of which a home savings contract is concluded,
- another legal entity, other than stipulated above, which concludes a home savings contract with a home savings bank or in favour of which a home savings contract is concluded.

The purpose of home savings is to finance housing needs in the Slovak Republic. It is clear from the above that the Bank carries out its activities exclusively in the territory of Slovak Republic. It focuses on accepting deposits from home savers, providing loans to home savers and providing consulting services related to home savings. The performance of other banking activities is at a minimum level. This eliminates the risk of concentration of credit risk by country and industry. The risk of concentration of credit risk according to borrowers is minimized by limits set by the Bank.

As at the date of preparation of the financial statements, the Bank does not have a significant concentration of credit risk towards an individual borrower or against an economically connected group of borrowers.

5.1.6 Capital management policies

The Bank's objectives in managing capital are as follows:

- compliance with capital requirements set by the regulator,
- ensuring the ability to continue to operate in order to secure profits for shareholders,
- maintaining a strong capital base to support business activities.

The capital adequacy and the use of regulatory capital are monitored by the Bank's management using directives developed by the Basel Commission and European Community regulations applied by the competent national authority for supervisory purposes. The required data shall be provided to the competent authority on a quarterly basis.

The competent authority of each bank or a bank group requires to keep the minimum specified amount of regulatory capital and to keep the ratio of total regulatory capital to assets with a specified risk (the so-called Basel ratio) above the internationally agreed minimum level of 8% plus capital cushions defined by the regulator. The current setting in the Slovak Republic is 2.5% for a capital preservation cushion and 1.0% for a countercyclical cushion.

Assets with a specified risk are recognised by defined risk categories according to the type of each individual asset and counterparty and considering an estimate of credit, market and other risks associated, considering accepted collateral and guarantee. A similar principle governs off-balance sheet recognition, using several adjustments that reflect the nature of potential losses.

The bank position of own funds is shown in the following table:

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Own funds		
Capital level 1		
Share capital and share premium (Note 6.16)	16 597	16 597
Reserve funds and other funds created from profit	3 319	3 319
Retained earnings from previous years, net of profit for the current year	19 770	18 248
less: Intangible assets	-1 625	-1 806
Transition adjustments to capital under IFRS 9	2 728	3 313
Positive revaluation differences	6 626	7 496
Total capital level 1	47 415	47 167
Capital level 2		
Positive revaluation differences	0	0
The amount by which the impairment allowances exceed the value of the expected loss on the Bank's assets and other exposures of the Bank	0	0
Total capital level 2	0	0
Own funds total	47 415	47 167

Position *Transitional capital adjustments based on IFRS 9*: Based on IFRS 9, it was necessary to create additional impairment allowances in the amount of EUR 3 898 thousand as at 1 January 2018. Regulation of the European Parliament and of the Council (EU) 2017/2395 of 12 December 2017 introduced transitional arrangements to mitigate the impact of the introduction of IFRS 9 on own funds. Under this Regulation, it is possible that in 2020, 70% of the value of created impairment allowances will still be part of own funds. This coefficient will be reduced to 0% over several years.

The value of share capital, share premium and intangible assets included in the calculation of own funds are taken from the financial statements prepared in accordance with IFRS as adopted by the EU.

Risk weighted assets are listed in the following table:

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Risk weighted assets	241 887	234 239
Risk weighted assets total	241 887	234 239

Capital indicators

Own funds as percentage of risk weighted assets total	19.60%	20.14%
Capital level 1 as percentage of risk weighted assets total	19.60%	20.14%

As at 31 December 2020, own funds of the Bank were in the amount of EUR 47 415 thousand (31.12.2019: EUR 47 167 thousand). The Bank continued (as in 2019) to maintain capital adequacy in accordance with the legislative requirements of the National Bank of Slovakia.

5.2 Liquidity risk

Liquidity risk is the possibility of loss of the Bank's ability to meet its liabilities as they fall due.

Liquidity management in the Bank represents a set of activities implemented in order to prevent a significant and unexpected surplus or lack of funds while achieving the required economic efficiency.

The basic objectives of the Bank's liquidity management include:

- minimize liquidity risk, i.e. ensure the ongoing ability to meet cash liabilities properly and on time,
- in connection with ensuring the required flow of liquidity, minimize losses in the conversion of non-monetary assets into cash or avoid unnecessary costs of obtaining additional funds,
- ensure compliance with the set compulsory minimum reserves,
- ensure compliance with the rules and limits set by the NBS,
- ensure compliance with internal rules and limits.

Liquidity risk is one of the significant risks for the Bank and due attention is paid to its management.

The Bank has developed its own internal regulation for its liquidity risk management strategy which contains the main principles and methods used by the Bank in managing liquidity risk.

The Bank monitors liquidity risk according to the expected remaining maturities of assets and liabilities. Liquidity is managed exclusively in EUR, as the vast majority of assets and liabilities are realised in euros. The main cash flows in favor of the Bank are primarily resources from customer deposits. The main cash flows borne by the Bank represent the liquid funds needed for housing loans and intermediate loans, termination of contracts, as well as operating expenses.

For the purpose of proper liquidity management, the Bank has defined basic and alternative scenarios for liquidity management.

In order to manage liquidity risk, the Bank also uses limits defined by the NBS.

The Bank does not face an immediate liquidity risk due to the withdrawal of deposits when terminating home savings contracts, as it has a defined time interval of 3 months in the General Terms and Conditions for the actual payment of home savings funds. In case of increased interest of clients in the payment of funds, the Bank has enough time to resolve the situation by selling its liquid assets.

The Bank has developed an "Emergency plan", which describes solutions to temporary and long-term liquidity difficulties. In crisis situations, the director of the Risk Management and Controlling Department is obliged to convene a working meeting with the participation of the Director of Section I. (covering sales and sales support, marketing and communication and products development departments) as well as the Treasury Dealer, at which the situation will be evaluated in detail. Subsequently, the Director of Risk Management and Controlling informs the Board of Directors of the Bank, which will make a final decision on the solution. Long-term liquidity is monitored by the Controlling department. The Treasury employee is responsible for short-term liquidity.

The primary source of the Bank's activities funding (provision of intermediary and housing loans) is the home savings fund (the Article 1 (2) and (3) of Act No 310/1992 on home savings), which consists mainly of home savers

deposits, accrued interest and government premium. Government premium represents contribution to the home saver from the state budget. The amount of government premium is based on the Act of home savings that also establishes criteria not to be fulfilled in order to obtain the premium. Cash purchased on the money market is used to refinance interbank loans and cover short-term liquidity shortfalls. The Bank has secured the funds purchased by holding highly liquid securities.

The Bank is not exposed to high concentration risk of resources since construction savings products have a set maximum target amount (EUR 200 thousand for natural persons and EUR 3 000 thousand for legal persons).

The tables below provide an analysis of financial assets and liabilities according to the respective maturity dates, performed based on the contractual maturity date as at the reporting date. Assets and liabilities are disclosed as undiscounted contractual cash payments.

COVID impact on liquidity and liquidity risk:

Money and capital market:

The COVID pandemic did not have a significant impact on the money market, unlike the stock market, oil or gold. Banks behave in a standard way on the money market, due to the crisis the banks did not reassess the limits for counterparties, the Euro was traded at constant prices. Also, securities prices were relatively stable, i. e. there were no greater fluctuations than in the pre-covid period.

Expectations: problems could occur as a result of delays, or termination of vaccination. The prolongation of the crisis could endanger mainly corporations doing business in more sensitive areas of the economy and the securities issued by them. Otherwise, the Bank does not expect any problems, especially given that it expects to hold the securities in the portfolio to maturity and therefore the widening of their spreads will not affect the Bank's financial results. At present, prices are higher than when purchased.

Loans and deposits:

The Bank provided deferral payments to clients in accordance with the "lex corona", which, however, given the volume of deferrals (specified in Section 5.1.2.1) and the maximum limited grace period of 9 months, does not have a material impact on the Bank's liquidity. The COVID pandemic also did not cause any problems on the deposits. The Bank complies with the statutory as well as internal liquidity coverage indicators.

Contractual remaining maturity of financial assets and liabilities:

<i>in thousands of EUR</i> 31.12.2020	Up to 1 month	From 1 month up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Unspecified maturity	TOTAL	Carrying amount
Cash and cash equivalents	434	0	0	0	0	0	434	448
Investments in debt securities	58	55	2 791	48 203	14 277	0	65 384	64 568
Loans and advances to customers	1 696	3 375	17 167	94 674	430 210	0	547 122	369 031
Other financial assets	33	0	0	0	0	0	33	33
Financial assets total	2 221	3 430	19 958	142 877	444 487	0	612 973	434 080

<i>in thousands of EUR</i>	Up to 1 month	From 1 month up to 3 months	From 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Unspecified maturity	TOTAL	Carrying amount
Deposits from customers	75 624	9 315	48 114	167 650	104 139	0	404 842	382 235
Deposits from banks	2 900	7 998	0	0	0	0	10 898	10 898
Other financial liabilities	929	0	0	0	0	47	976	976
Loan commitments	7 090	0	0	0	0	0	7 090	7 090
Financial liabilities total	86 543	17 313	48 114	167 650	104 139	47	423 806	401 199

Expected contractual remaining maturity of undiscounted financial liabilities:
in thousands of EUR
31.12.2020

	<i>Up to 1 month</i>	<i>From 1 month up to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 year to 5 years</i>	<i>More than 5 years</i>	<i>Unspecified maturity</i>	TOTAL
Deposits from customers	403	562	1 877	83 930	340 931	0	427 703
Deposits from banks	2 900	7 998	0	0	0	0	10 898
Other financial liabilities	929	0	0	0	0	47	976
Loan commitments	7 090	0	0	0	0	0	7 090
Financial liabilities total	11 322	8 560	1 877	83 930	340 931	47	446 667

Deposits by banks represent short-term refinancing from banks, mostly with a maturity of up to 3 months, which is renewed in the amount of up to EUR 40 million. The client is entitled to draw loan commitments within 1 year of their issuance. Based on the Bank's analysis, these are mostly drawn within 5 months from granting.

Contractual remaining maturity of financial assets and liabilities:
in thousands of EUR
31.12.2019

	<i>Up to 1 month</i>	<i>From 1 month up to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 year to 5 years</i>	<i>More than 5 years</i>	<i>Unspecified maturity</i>	TOTAL	Carrying amount
Cash and cash equivalents	1 235	0	0	0	0	0	1 235	1 294
Investments in debt securities	58	55	28 831	17 533	47 850	0	94 327	92 497
Loans and advances to customers	1 761	3 499	17 715	97 166	437 265	0	557 406	370 385
Other financial assets	33	0	0	0	0	135	168	168
Financial assets total	3 087	3 554	46 546	114 699	485 115	135	653 136	464 344

<i>in thousands of EUR</i>	<i>Up to 1 month</i>	<i>From 1 month up to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 year to 5 years</i>	<i>More than 5 years</i>	<i>Unspecified maturity</i>	TOTAL	Carrying amount
Deposits from customers	38 564	18 053	59 845	243 412	53 432	0	413 306	393 707
Deposits from banks	3 700	25 998	0	0	0	0	29 698	29 698
Other financial liabilities	1 081	0	0	0	0	28	1 109	1 109
Loan commitments	8 477	0	0	0	0	0	8 477	8 477
Financial liabilities total	51 822	44 051	59 845	243 412	53 432	28	452 590	432 991

Expected contractual remaining maturity of undiscounted financial liabilities:

<i>in thousands of EUR</i> 31.12.2019	Up to 1 month	From 1 month up to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Unspecified maturity	TOTAL
Deposits from customers	420	586	1 955	87 447	355 215	0	445 623
Deposits from banks	3 700	25 998	0	0	0	0	29 698
Other financial liabilities	1 081	0	0	0	0	28	1 109
Loan commitments	8 477	0	0	0	0	0	8 477
Total financial liabilities	13 678	26 584	1 955	87 447	355 215	28	484 907

The Bank recalculated the remaining maturity of financial liabilities, based on the expected cash flows performed under the contract and historical experience.

5.3 Market risk

Market risk is the risk of loss resulting from the position of the Bank and from changes in the values of risk factors, these values being determined by the market. The main components of market risk are interest rate risk, foreign exchange risk, equity risk and commodity risk, while the Bank is not exposed to equity or commodity risk due to the type of transactions performed.

In 2020 and in 2019, the Bank was not exposed to significant foreign exchange risk as deposits from customers and provided loans are denominated in the functional currency. Liabilities and receivables from the Bank's operating activities in a currency other than the functional currency did not have a significant impact on the Bank's foreign exchange risk.

Operations related to market risk include transactions with government bonds, NBS treasury bills, mortgage bonds, setting interest rates for loans and intermediate loans, and transactions on the interbank market.

Interest rate risk

Interest rate risk arises when the value of a financial instrument fluctuates due to changes in market interest rates and when the maturity of interest-bearing assets differs from the maturity of interest-bearing liabilities used as a source of funding for those assets. The time frame during which the interest rate is fixed on a financial instrument determines the extent to which that financial instrument is exposed to interest rate risk.

The Bank uses the Outlier Ratio method to manage interest rate risk, which is based on GAP analysis. The Bank performs GAP analysis on a monthly basis.

Should the market interest rate increase/decrease by 1%, the change would affect the newly opened savings accounts as well as new intermediate loans and credit lines and the impact on the profit as at 31.12.2020 would be positive/negative by EUR 158 thousand (as at 31.12.2019: EUR 362 thousand). The impact on equity caused by the change in the price of financial assets measured at FVOCI due to a change in the interest rate by 1% would be EUR 2 109 thousand (31.12.2019: EUR 2 600 thousand).

Effective interest rates on financial instruments:

<i>in %</i>	31.12.2020	31.12.2019
Cash and cash equivalents	-0.06	-0.21
Loans and advances to banks	-	-
Financial assets at fair value (FVOCI)	4.23	3.20
Loans and advances to customers	2.85	3.16
Financial assets at amortised cost	1.83	2.43
Deposits from customers	1.27	1.38

Financial instruments, liabilities and loan commitments by category:

<i>in thousands of EUR</i> 31.12.2020	Amortised cost (AC)	Fair value through other comprehensive income (FVOCI)	Total carrying amount	Fair value
Cash and cash equivalents	448	0	448	448
Investments in debt securities	17 489	47 079	64 568	66 281
Loans and advances to customers, of which:				
Housing loans	12 979	0	12 979	13 434
Intermediate loans - natural persons	307 003	0	307 003	388 148
Intermediate loans - legal entities	49 063	0	49 063	60 067
Other financial assets	33	0	33	33
Total financial instruments	387 015	47 079	434 094	528 411
Customer accounts	382 235	0	382 235	394 141
Deposits by banks	10 898	0	10 898	10 898
Other financial liabilities	976	0	976	976
Total financial liabilities	394 109	0	394 109	406 015

As at 31 December 2020, the off-balance sheet loan commitments are recorded in the net amount of EUR 7 090 thousand.

<i>in thousands of EUR</i> 31.12.2019	Amortised cost (AC)	Fair value through other comprehensive income (FVOCI)	Total carrying amount	Fair value
Cash and cash equivalents	1 294	0	1 294	1 294
Investments in debt securities	22 687	69 810	92 497	94 228
Loans and advances to customers, of which:				
Housing loans	14 038	0	14 038	15 285
Intermediate loans - natural persons	307 474	0	307 474	388 576
Intermediate loans - legal entities	48 889	0	48 889	58 063
Other financial assets	168	0	168	168
Total financial instruments	394 550	69 810	464 360	557 614
Customer accounts	393 707	0	393 707	400 546
Deposits by banks	29 698	0	29 698	29 698
Other financial liabilities	1 109	0	1 109	1 109
Total financial liabilities	424 514	0	424 514	431 353

As at 31 December 2019, the off-balance sheet loan commitments are recorded in the net amount of EUR 8 477 thousand.

Impact of the COVID pandemic:

The impact of the corona crisis on the money and capital markets and the securities portfolio is described in Note 5.2 (Liquidity risk). The Bank did not record a significant impact of the crisis on bank-wide interest rate risk.

5.4 Operational risk

Operational risk means the risk of loss resulting from inappropriate or erroneous internal processes in the bank, arising from the human factor failure, systems failure used by the bank or from external events.

The Bank identifies the following basic types of operational risks:

- personnel risk
- legal risk
- external risk
- information risk
- outsourcing risk.

Analysis and identification of operational risks are an integral part of all changes taking place in the Bank. The analysis of operational risks is based on the subjective assessment of individual parameters which enter into this analysis by the Bank. It is usually based on the experience of the asset owners and their views on possible vulnerabilities and threats, the impact of the threats and the likelihood of their realisation.

One of the basic principles of operational risk management is the responsibility of each manager to manage the risks involved in the processes he or she owns. Managers are responsible for coordinating matters related to individual processes, for identifying and assessing operational risk, and for collecting and recording data on operational risk events and losses. Risk Management department ensures the coordination of activities between organizational units for processes going beyond more than one organizational unit.

The breakdown of operational risks is performed in accordance with international standards for information risk management and in accordance with the measure of the National of the Bank of Slovakia No. 13/2010 of 31 August 2010 on other types of risks, on the details of the risk management system of the Bank and the foreign branch of the Bank and establishing what is meant by a sudden and unexpected change of market interest rates.

Personnel risks

Personnel risks are characterized as risks caused by the actions of staff, employees, advisers manifesting errors in processing, intentional and unintentional human actions damaging the assets of the Bank.

The condition for classifying the risk into the group of personnel risks is a clear demonstration that the event was caused by human action. A special subgroup of personnel risks are the risks associated with the selection of new employees, motivation and remuneration of employees and the substitutability of individual job positions. These risks, including the tools for their management, are covered by the bank's personnel strategy, for the creation and updating of which the Human Resources Department is responsible.

Legal risks

Legal risk is defined as the risk arising in particular from the unenforceability of contracts, unsuccessful court proceedings or judgments with a negative impact on the bank.

External risks

External risks are all risks originating from the external environment not included in any other types of operational risks, e.g. property damage, natural disaster, industrial accident, insufficient level of services provided, etc.

Information technology risks

Information technology risks are all risks that threaten information technology assets. These are, for example, misuse, damage or loss of trading, banking, personal data, etc.

Outsourcing risk

The risk arises when securing banking activities by supplier.

6 ADDITIONAL INFORMATION TO THE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF PROFIT OR LOSS**6.1 Cash and cash equivalents**

Cash and cash equivalents as at 31.12.2020 and as at 31.12.2019 are as follows:

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Cash on hand	2	3
Term deposits with contractual maturity up to 3 months	0	0
Current accounts	391	740
Deposits with central banks	40	491
Term deposits v NBS	0	0
Other loans and advances to banks	15	60
Cash and cash equivalents	448	1 294
Compulsory minimum reserves	0	0
Total	448	1 294

6.2 Investments in debt securities**6.2.1 Investments in debt securities**

<i>In thousands of EUR</i>	31.12.2020	31.12.2019
Debt instruments at fair value (FVOCI)	47 079	69 810
Debt instruments at amortised cost	17 489	22 687
Investments in debt securities total	64 568	92 497

The following table shows investments in debt securities by valuation category and individual classes:

<i>In thousands of EUR</i>	31.12.2020			31.12.2019		
	<i>Debt instruments at fair value (FVOCI)</i>	<i>Debt instruments at amortised cost (AC)</i>	<i>Total</i>	<i>Debt instruments at fair value (FVOCI)</i>	<i>Debt instruments at amortised cost (AC)</i>	<i>Total</i>
Government bonds	46 060	11 419	57 479	68 783	16 616	85 399
Bank bonds	1 027	4 017	5 044	1 053	4 014	5 067
Other than bank bonds	0	2 058	2 058	0	2 065	2 065
Debt instruments investments (fair value or gross carrying amount)	47 087	17 494	64 581	69 836	22 695	92 531
Impairment allowance	-8	-5	-13	-26	-8	-34
Debt instruments investments (carrying amount)	47 079	17 489	64 568	69 810	22 687	92 497

6.3 Loans and advances to customers

In table 5.1.2.1 of the notes, the gross carrying amount of loans and intermediate loans provided to clients without off-balance sheet and the carrying amount of impairment allowance on expected losses, or on loan and intermediate loans impairment provided to customers are presented as at 31 December 2020 and 31 December 2019.

Impairment allowance due to expected credit losses on loans and intermediate loans provided to customers, reported in the current accounting period, is affected by various factors; details of the determination of the ECL amount are disclosed in Note 5.1.1.

6.4 Investment in subsidiary

As at 31.12.2020 and as at 31.12.2019, the Bank controls the subsidiary Wüstenrot Servis, spol. s r.o. with a 100% ownership interest.

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Wüstenrot Servis, spol. s r.o.	348	369
Total	348	369

The subsidiary achieved a profit for 2019 in the amount of EUR 12 thousand and as at 31.12.2020 its share capital in the amount of EUR 40 thousand (31.12.2019: EUR 40 thousand).

6.5 Property and equipment

The movements of property and equipment are as follows:

<i>in thousands of EUR</i>	<i>Buildings and structures</i>	<i>Land</i>	<i>Machinery and equipment</i>	<i>Other low-value assets</i>	<i>Acquisi- tion</i>	<i>Total</i>
Cost						
Balance as at 1.1.2020	6 118	547	742	1 577	3	8 987
Additions	0	0	0	63	86	149
Transfers from investment property into property	0	0	0	0	0	0
Disposals/transfers	0	0	-13	-42	-63	-118
Balance as at 31.12.2020	6 118	547	729	1 598	26	9 018
Accumulated depreciation and impairment allowances						
Balance as at 1.1.2020	-2 856	0	-729	-1 351	0	-4 936
Depreciation	-96	0	-11	-97	0	-204
Disposals	0	0	13	41	0	54
Transfers from property investments into property	0	0	0	0	0	0
Balance as at 31.12.2020	-2 952	0	-727	-1 407	0	-5 086
Net book value as at 31.12.2020	3 166	547	2	191	26	3 932
<i>in thousands of EUR</i>	<i>Buildings and structures</i>	<i>Land</i>	<i>Machinery and equipment</i>	<i>Other low-value assets</i>	<i>Acquisition</i>	<i>Total</i>
Cost						
Balance as at 1.1.2019	5 959	547	744	1 574	6	8 830
Additions	125	0	0	183	306	614
Transfers from investment property into property	34	0	0	0	-1	33
Disposals / transfers	0	0	-2	-180	-308	-490
Balance as at 31.12.2019	6 118	547	742	1 577	3	8 987
Accumulated depreciation and impairment allowances						
Balance as at 1.1.2019	-2 750	0	-712	-1 428	0	-4 890
Depreciation	-96	0	-19	-101	0	-216
Disposals	0	0	2	178	0	180
Transfers from investment property into property	-10	0	0	0	0	-10
Balance as at 31.1.2019	-2 856	0	-729	-1 351	0	-4 936
Net book value as at 31.12.2019	3 262	547	13	226	3	4 051

As at 31 December 2020, the Bank records fully depreciated property and equipment at cost in the amount of EUR 1 980 thousand (31.12.2019: EUR 1 858 thousand), which it still uses.

In 2020, the Bank insured property and equipment for damage or destruction by a natural disaster in the amount of EUR 9 349 thousand (2019: EUR 9 349 thousand). The total amount of premiums as at 31 December 2020 is in the amount of EUR 16 thousand (31.12.2019: EUR 12 thousand).

There are no restrictions on the ownership of the Bank's assets and no assets are pledged for the Bank's liabilities.

6.6 Investment property

<i>in thousands of EUR</i>	<i>Investment property</i>	<i>Acquisition</i>	<i>Total</i>
Cost			
Balance as at 1.1.2020	3 671	1	3 672
Additions	0	0	0
Transfers from property into property investments	0	0	0
Disposals	0	0	0
Balance as at 31.12.2020	3 671	1	3 672
Accumulated depreciation and impairment allowances			
Balance as at 1.1.2020	-1 703	0	-1 703
Depreciation	-58	0	-58
Transfers	0	0	0
Balance as at 31.12.2020	-1 761	0	-1 761
Net book value as at 31.12.2020	1 910	1	1 911

<i>in thousands of EUR</i>	<i>Property investments</i>	<i>Acquisition</i>	<i>Total</i>
Cost			
Balance as at 1.1.2019	3 657	0	3 657
Additions	48	48	96
Transfers	-34	1	-33
Disposals	0	-48	-48
Balance as at 31.12.2019	3 671	1	3 672
Accumulated depreciation and impairment allowances			
Balance as at 1.1.2019	-1 658	0	-1 658
Depreciation	-55	0	-55
Transfers from property into property investments	10	0	10
Balance as at 31.12.2019	-1 703	0	-1 703
Net book value as at 31.12.2019	1 968	1	1 969

In addition to its own use, the Bank leases buildings in Košice, Nitra, Banská Bystrica, the Head office building in Bratislava and the entire property in Bratislava on Vajnorská Street. The value of leased buildings is included in investment property.

As at 31 December 2020, the market value of investment property determined by an expert is in the amount of 3 175 thousand (2019: EUR 3 433 thousand). The Bank uses the income method, using market rents and yields as key inputs. Market values are based on valuations performed by an accredited valuer. All relevant available market data such as development of real estate prices, possible impact of Covid-19 pandemic, etc. were considered when determining market value.

Operating costs for property investments were until 31 December 2020 in the amount of EUR 135 thousand (2019: EUR 138 thousand), total rental income amounted to EUR 215 thousand (2019: EUR 206 thousand).

The table of the non-terminable lease overview is provided in Note 6.27.

6.7 Intangible assets

Movements in intangible assets are as follows:

<i>in thousands of EUR</i>	Software	Acquisition	Total
Cost			
Balance as at 1.1.2020	5 903	37	5 940
Additions	200	224	424
Disposals / transfers	-335	-200	-535
Balance as at 31.12.2020	5 768	61	5 829
Accumulated depreciation and impairment allowances			
Balance as at 1.1.2020	-4 134	0	-4 134
Amortisation	-399	0	-399
Disposals	335	0	335
Balance as at 31.12.2020	-4 198	0	-4 198
Net book value as at 31.12.2020	1 570	61	1 631

<i>in thousands of EUR</i>	Software	Acquisition	Total
Cost			
Balance as at 1.1.2019	5 923	29	5 952
Additions	172	180	352
Disposals / transfers	-192	-172	-364
Balance as at 31.12.2019	5 903	37	5 940
Accumulated depreciation and impairment allowances			
Balance as at 1.1.2019	-3 901	0	-3 901
Amortisation	-425	0	-425
Disposals	192	0	192
Balance as at 31.12.2019	-4 134	0	-4 134
Net book value as at 31.12.2019	1 769	37	1 806

As at 31 December 2020 the Bank records fully amortised and still used intangible assets at cost in the amount of EUR 2 550 thousand (2019: EUR 2 037 thousand).

6.8 Other assets*in thousands of EUR*

	31.12.2020	31.12.2019
Other assets - financial		
Various debtors	233	237
Impairment allowances	-200	-204
Other loans and advances to customers from fees	395	479
Impairment allowances for loans and advances from fees	-395	-344
Other financial assets total	33	168
Other assets – non-financial		
Inventory	57	35
Provided operating advances	51	46
Deferred expenses and accrued income	293	333
Other taxes	0	0
Other non-financial assets total	401	414
Total	434	582

In "Other assets", the Bank records overdue receivables as at 31 December 2020 in the amount of EUR 395 thousand (2019: EUR 299 thousand), for which a 100% impairment allowance and receivables in the amount of EUR 395 thousand are created (2019: EUR 299 thousand).

The most significant part of "Operating advances provided" consists of advances to suppliers and advances for commissions provided for home savings consultants.

The most significant item, which the Bank accrues to deferred expenses, are the costs of projects within the Group, which as at 31 December 2020 represent EUR 248 thousand (2019: 298 thousand EUR) and prepaid property insurance, licenses, rental, IT services, which as at 31 December 2020 represent the amount of EUR 46 thousand (2019: EUR 37 thousand).

Creation and use of impairment allowances for various debtors of the Bank:

<i>in thousands of EUR</i>	1.1. 2020	Creation	Use	31.12.2020
Impairment allowances for various debtors				
Total	-204	0	4	-200

<i>in thousands of EUR</i>	1.1. 2019	Creation	Use	31.12.2019
Impairment allowances for various debtors				
Total	-208	-4	8	-204

Creation and use of impairment allowances for the Bank's receivables from fees:

<i>in thousands of EUR</i>	1.1. 2020	Creation	Use	31.12.2020
Impairment allowances for receivables from fees				
Total	-344	51	0	-395

<i>in thousands of EUR</i>	1.1.2019	Creation	Use	31.12.2019
Impairment allowances for receivables from fees				
Total	-411	0	67	-344

6.9 Deposits from customer

Customer and other creditors accounts consist of the items described in the chapters below.

6.9.1 Deposits from customer and other creditors

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Savings accounts of natural persons	366 706	378 713
Savings accounts of legal entities	13 062	11 967
<i>of which savings accounts of associations of flat owners</i>	13 062	11 967
Other customer accounts	2 467	3 027
Total	382 235	393 707

Other customer accounts include the Bank's liabilities from deposit bonification:

Liability from interest bonus (Flexibil interest bonus)

Since 2002, the Bank recognised the creation of a liability for interest bonus on deposits. Pursuant to the Article 5 of the General terms and conditions for construction savings Flexibil, the Bank may provide the home saver with a bonus for the home savings contract after six years of savings, the amount of which is determined by the Bank twice a year. Another condition for obtaining an interest bonus is a written waiver of the home saver's right to provide a housing loan for the entire duration of the contract.

The basis for accounting for the liability is accrued interest on ongoing home savings contracts. The share of contracts which met the conditions for obtaining an interest rate subsidy was 29.4% (Note 4.3).

Liability from interest bonus (BV3 + BV2)

In 2009, the Board of Directors of the Bank approved a bonus of 2% (BV2) and 3% (BV3) for the first year of the contract for contracts concluded from 1 February 2009. The bonus will be credited upon termination, upon expiry of 2 years of commitment (BV2) and at the end of the 3 - year commitment period (BV3). From the above interest bonus, the Bank accounts for the liability calculated using the effective interest rate method. The interest rate subsidy on deposits (BV3 + BV2) was valid until 31 May 2010. The interest bonus on deposits (BV3 + BV2) was valid until 31 May 2010.

Liability from interest bonus (SPI+SPV)

In 2009, the Board of Directors of the Bank approved the introduction of a 2%, 3% and 4% interest bonus for the first year of the contract, depending on the amount of the deposit for home savings contracts concluded from 1 February 2009 subject to specified conditions (inter alia 6 years of the contract). For contracts that lasted 3 years but were terminated before the 6th year, the bonus is reduced). From the above interest bonus, the Bank accounts for the liability calculated using the effective interest rate method.

Liability from interest bonus (BV1+B2V+BV4)

In 2010, the Board of Directors of the Bank approved a bonus of 1% (BV1) and 2% (BV4) for the first year of the contract for contracts concluded from 1 June 2010. In line with market interest rate developments, the bonus gradually decreased (as at 31 December 2020 the bonus for 2-year B2V products was 0.0%). The bonus will be credited upon termination, upon completion of the 2-year contractual period (BV1, B2V) and upon completion of the 3-year contractual period (BV4). From the above interest bonus, the Bank accounts for the liability calculated using the effective interest rate method.

Liability from interest bonus (B4V+B3V)

In 2011, the Board of Directors of the Bank approved a bonus of 2.5% (B3V) and 3.5% (B4V) for the first year of the contract for contracts concluded from September 2011. In line with market interest rate developments, the bonus gradually decreased (as at 31 December 2020 the bonus for 3-year B3V products was 0.0% and for 4-year B4V products 0.0%). The bonus will be credited upon termination, with a minimum contractual period of 3 years (B3V) or 4 years (B4V). From the above interest bonus, the Bank accounts for the liability calculated using the effective interest rate method.

Liability from interest bonus 2.5 % (3.5%, 3%)

In 2015, the Board of Directors of the Bank approved a 2.5% bonus for construction savings contracts with a 6-year cycle. The 2.5% bonus is calculated on the home saver's deposits under contract during the first 12 months after the conclusion of the home savings contract, but up to a maximum of EUR 3 000. The interest bonus is credited to the home savings account upon completion of the 6-year cycle. In the event of termination of the contract within 6 years of its effectiveness (termination, merger, assignment), the client is not entitled to an interest bonus. From the above interest bonus, the Bank accounts for the liability calculated using the effective interest rate method.

In the first half of 2016, the interest rate for home savings contracts with a 6-year cycle was reduced from 1.5% to 1% p.a. To increase the attractiveness of the product, the bonus was increased from 2.5% to 3.5%. The conditions for this bonus remained unchanged. From 1 August 2016, the bonus was reduced from 3.5% to 3%, and from 1 March 2017, the bonus was cancelled. On 1 February 2018, a bonus of 2% was introduced during the first 12 months from the conclusion of the construction savings contract, up to a maximum of EUR 3 000.

Other customer accounts are as follows:

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Liability from interest bonus Flexibil	53	60
Liability from interest bonus (BV3 + BV2)/(BV1+B2V+BV4)	4	9
Liability from interest bonus (SPI + SPV)	0	18
Liability from interest bonus (B4V+B3V)	61	100
Liability from bonus 2.5%; 3.5%; 3%; 2.0%	639	501
Liability from canceled contracts	1 710	2 333
Other liabilities from deposits	0	6
Total	2 467	3 027

In 2020, the remaining liability from canceled contracts as at 31 December 2020 is in the amount of EUR 1 695 thousand, which represented 1 522 contracts with an average saved amount of EUR 1 113 (31.12.2019: the liability from canceled contracts amounted to EUR 2 289 thousand, which represented 1 581 contracts with an average amount saved of EUR 1 448).

6.9.2 Deposits from customers structure of the Bank

Deposits from customers structure of the Bank by contractual remaining maturity:

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
1 month and less	75 262	108 832
More than 1 month, but not more than 3 months	9 262	15 913
More than 3 months, but not more than 1 year	47 383	64 948
More than 1 year, but not more than 5 years	158 998	178 433
More than 5 years	90 015	24 115
Unspecified	1 315	1 466
Total	382 235	393 707

As at 31 December 2020 the Bank records 80 123 home savings accounts (as at 31 December 2019: 91 592 accounts).

6.10 Deposits from banks

Deposits from banks represent term deposits from other banks with a contractual maturity of up to 3 months. The Bank recognised the following deposits from banks:

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Term deposits from other banks	10 898	29 698
Total	10 898	29 698

6.11 Accruals/deferrals

As at 31 December 2020 and 31 December 2019, the Bank accounts for the following accruals/deferrals:

Liability for untaken vacation, bonuses and unbilled supplies and services

The Bank recognised the liability for untaken vacation and remuneration, including social security and contributions, which it is obliged to pay for its employees, the liability for unbilled services, which represent the audit of financial statements, preparation of tax returns and annual report.

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Liability for unbilled services	50	50
Liability for untaken vacation	111	112
Liability for bonuses and royalties	241	216
Total	402	378

Liabilities for accruals/deferrals in 2020 are presented in Note 6.15 Other liabilities.

6.12 Provisions

The Bank creates a provision for risks arising from assumed failed litigation. The creation of this provision depends on the anticipated number of claims from litigation. Litigation is in process against former co-employees of the external sales network and former employees. The amount of provisions represents the time-weighted present value of these contingent liabilities.

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Provision for litigations	172	160
Total	172	160

The tables below provide an overview of the creation and use of provisions in 2020 and 2019.

<i>in thousands of EUR</i>	1.1.2020	Creation	Use	31.12.2020
Provision for litigations	160	12	0	172
Total	160	12	0	172

<i>in thousands of EUR</i>	1.1.2019	Creation	Use	31.12.2019
Provision for litigations	113	50	-3	160
Total	113	50	-3	160

6.13 Tax liabilities / assets - current tax

The tax liability is calculated according to the profit or loss recognised in the accounting books in line with the Slovak legislation and according to the law No. 595/2003 Coll. on income tax, as amended.

Current tax liability

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Opening balance of current tax asset	356	-196
Income tax paid	152	1 094
Current tax (section 6.26 notes)	-383	-542
Closing balance of current tax asset	125	356

6.14 Deferred tax asset / liability

Deferred tax is calculated from all temporary differences using the 21% (2019: 21%) tax rate applicable for the period in which the deferred tax is expected to be settled.

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Impairment allowance for financial assets	3 335	3 248
Tax expenses deductible after payment	177	221
Financial and other liabilities (interest bonus in particular)	267	240
Property and equipment and intangible assets	-670	-650
Financial investments – debt securities at FVOCI	-1 761	-1 993
Net deferred tax - asset	1 348	1 066

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Deferred tax asset as at 1 January	1 066	728
Deferred tax recognised to profit or loss (Note 6.26)	50	55
Deferred tax recognised to equity- revaluation of financial assets held for sale/FVOCI	232	282
Net deferred tax - asset	1 348	1 066

6.15 Other liabilities

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Other liabilities - financial		
Liabilities from commissions	690	771
Various creditors	239	310
Liability from commissions to intermediaries	47	28
Other financial liabilities total	976	1 109
Other liabilities – non-financial		
Withholding tax (tax on interest credited to clients' accounts)	841	931
Settlement with employees	177	165
Other taxes	72	75
Social fund from wages and profits	29	33
Settlement with social institutions	122	117
Accrued expenses and deferred income	27	1
Other non-financial liabilities total	1 268	1 322
Total	2 244	2 431

In other liabilities, the Bank recognises short-term liabilities with a maturity of up to 1 year and no overdue liabilities.

The various creditors mainly include liabilities to suppliers as at 31 December 2020 in the amount of EUR 214 thousand (31.12.2019: EUR 198 thousand).

Liabilities from unpaid commissions for concluding a home savings contract

Pursuant to the Commission Rules, the Bank pays commissions to the intermediary for concluding a home savings contract and for increasing target amounts. 80% of this commission is paid after making a deposit in the amount of the fee for concluding the contract, or for increasing the target amount. The remaining 20% of commissions are payable after meeting the conditions specified in the Commission Rules.

6.15.1 Creation and use of social fund

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Social fund balance as at 1 January	33	41
Creation		
- from expenses	36	32
- % from profit	0	0
Drawing	40	40
Social fund balance	29	33

6.16 Equity

Share capital of the Bank as at 31 December 2020 (as well as at 31 December 2019) comprises of 1 000 fully paid-up shares with the nominal value is EUR 16 597 per share. The shares are registered with the Centrálny depozitár cenných papierov SR, a.s.

According to the Commercial Code, the Bank is obliged to create a Legal Reserve Fund upon its establishment in the amount of at least 10% of the share capital and contributes annually by an amount of at least 10% of net profit, up to a maximum of 20% of the share capital. Compulsory contribution to the legal reserve fund is not necessary, as the Legal Reserve Fund has already reached its maximum limit set in the legislation.

On 9 June 2020, the General Meeting approved the transfer of profit for 2019 to retained earnings from previous years, decided not to pay dividends from the profit for 2019 to the Bank shareholders and not to pay royalties to members of the Supervisory Board. The proposal of the Board of Directors is to transfer the profit to retained earnings from previous years.

<i>in thousands of EUR</i>	31.12.2019
Dividends paid	0
Contribution to statutory and other funds	0
Transfer to retained earnings	1 522
Total	1 522

The Board of Directors will propose to transfer the profit for 2020 to retained earnings from previous years.

6.17 Net interest income

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Interest income calculated using the effective interest method		
From loans and advances to customers	10 133	11 803
From current accounts and term deposits with other banks	43	72
From debt securities at amortised cost	1 702	774
From debt securities at FVOCI	394	1 899
Interest income calculated using EIR total	12 272	14 548
Interest expenses		
From savings accounts	5 437	5 972
From term deposits with other banks	2	2
Interest expenses total	5 439	5 974
Net interest income total	6 833	8 574

As at 31 December 2020, the interest income from impaired loans amounted to EUR 1 586 thousand (as at 31.12.2019 EUR 1 570 thousand).

6.17.1 Interest income from loans and advances to customers

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Interest from intermediary loans	8 967	10 602
Interest from housing loans	557	648
Interest from late payments	609	553
Total	10 133	11 803

As at 31 December 2020, impairment allowance for interest income from housing loans and intermediate loans included in level 3 amounted to EUR 954 thousand (as at 31 December 2019: EUR 1 033 thousand). Impairment allowance for interest income reduces the value of net interest income.

6.17.2 Interest income from debt securities investments

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Bank bonds	51	51
Government bonds	2 002	2 563
Mortgage bonds	19	35
Other than bank bonds	24	24
Total	2 096	2 673

6.18 Net fee and commission income

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Fee and commission income		
Fees received from customers, of which:		
- account management fee	1 337	1 440
- other fees (account extract and other fees)	1 437	1 439
- account termination fee	857	681
- commissions	34	44
Fee and commission income total	3 665	3 604

Fee and commission expenses

Commissions to sales representatives (e.g. for offices, incentive commissions not related to individual contracts)

154 161

Bank charges

43 48

Other fees

53 68

Fee and commission expenses total**250 277****Net fee and commission income total****3 415 3 327**

Until 31 December 2020, the Bank wrote off loans and advances to customers, which represented the negative balance on savings accounts, in the total amount of EUR 153 thousand (until 31 December 2019: EUR 169 thousand).

6.19 General operating income*in thousands of EUR***31.12.2020****31.12.2019**

Advertising

243 307

Material consumption

104 99

Property repairs and maintenance

85 129

Rent

193 291

Telecommunication

130 168

Software maintenance

976 932

Indirect taxes

113 129

Professional services

53 47

Audit fee

60 61

Energy consumption

75 82

Training

28 38

Other purchased services

361 436

Total**2 421 2 719**

In 2020, the Bank incurred costs for auditor services related to the audit of financial statements in the amount of EUR 54 thousand (2019: EUR 53 thousand) and created a short-term reserve for the said service as at 31 December 2020 in the amount of EUR 40 thousand (2019: EUR 39 thousand). The costs associated with the performance of the audit provided by the statutory auditor also related to the audit of prudential statements and the preparation of long form report in accordance with the Banking Act. In 2020, the auditor also provided tax services. As at 31 December 2020, the Bank created a provision for the service in the amount of EUR 6 thousand (2019: EUR 6 thousand).

6.20 Personnel costs*in thousands of EUR***31.12.2020****31.12.2019**

Wages

2 709 2 599

Pension contribution plans and other social and health insurance costs

887 838

- of which specified retirement insurance

523 494

Total**3 596 3 437****6.21 Depreciation of property and equipment and investment properties and amortisation of intangible assets***in thousands of EUR***31.12.2020****31.12.2019**

Depreciation of property and equipment and amortisation of property investments

262 271

- of which depreciation of property and equipment

204 215

- of which depreciation of investment properties

58 56

Amortisation of intangible assets

399 425

Total**661 696**

6.22 Other operating income

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Proceeds from sale of property and equipment and intangible assets	1	21
Income from rent	256	331
Income from other services	0	3
Other operating income	28	77
Total	285	432

6.23 Other operating expenses

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Contribution to Deposit protection fund	34	35
Unapplied VAT	358	384
Bank tax	851	847
Transfers of property and equipment and intangible assets expenses	0	3
Other operating expenses	146	134
Total	1 389	1 403

6.24 Creation and release of impairment allowances for loans and write-off of receivables

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Net creation of impairment allowances	-1 460	-2 076
Total	-1 460	-2 076

If debt collection is not successful, or the costs of their recovery would be higher than the amount to be recovered, the Bank proceeds with the sale of such receivables. Until 31 December 2020, the Bank wrote off receivables from non-performing loans and intermediate loans in the amount of EUR 2 678 thousand (until 31 December 2019: EUR 2 981 thousand). The amount of written-off receivables represents balances from loans and intermediate loans net of impairment allowances.

The Bank writes off receivables in the following cases:

- uncollectible and unassigned receivables, the recovery of which would be inefficient,
- waiving the recovery of receivables according to a valid court decision or the executor's statement on their uncollectability,
- based on internal regulations of the Bank.

6.25 Creation and release of impairment allowances for other assets and amortisation of other assets

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Creation of impairment allowances for other assets, of which:		
- for bank accounts	-2	-3
- for loans and advances in recovery process	0	-4
- for investments	0	0
Release of impairment allowances for other assets, of which:		
- for bank accounts	3	4
- for loans and advances in recovery process	4	9
- for investments	0	0
Net creation/release of impairment allowances for other assets	5	6
Amortisation of other assets	-4	-9
Impairment allowances and amortisation of other assets total	1	-3

6.26 Income tax

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Profit or loss for current year before tax	1 028	2 009
Of which theoretical income tax at 21%	216	422
Tax base adjustments	117	65
Total income tax recognised	333	487
Current income tax (Note 6.13)	383	542
Deferred tax (Note 6.14)	-50	-55
Income tax expenses total	333	487

	31.12.2020	31.12.2019
	%	%
<i>in thousands of EUR</i>	<i>in thousands of EUR</i>	<i>in thousands of EUR</i>
Profit before tax	1 028	2 009
Income tax at the current tax rate	21	21
Impairment allowances	9.33	1.28
Provisions	2.65	0.16
Other tax non-deductible income/tax non-deductible expenses	5.80	4.52
	38.79	26.96
Additional tax for the previous year	-1.56	0
Current income tax	37.23	26.96
Deferred tax at 21%	-4.86	-2.74
Effective tax rate and income tax	32.37	24.23

The tax rate for income tax in 2019 is set at 21% (2019: 21%). The tax rate for deferred income tax is set at 21% (2019: 21%).

Current income tax is calculated in accordance with Act no. 595/2003 Coll. on income tax, as amended, and the tax base is derived from the profit or loss reported in the separate financial statements in accordance with IFRS as adopted by the European Union.

6.27 Operating leasing

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Minimum lease payments	43	67
Up to 1 year	43	67

The Bank leases premises under operating lease contracts.

Summary of future minimum lease payments for non-cancellable operating leases in which the Bank is the lessor:

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Minimum lease payments	59	77
Up to 1 year	59	77

The Bank leases part of its own premises in Nitra, Banská Bystrica, Košice and Bratislava to Wüstenrot poisťovňa, a.s. under operating lease contracts.

6.28 Related parties transactions

As part of its ordinary activities, the Bank enters into several transactions with related parties. The transactions took place under normal conditions and relationships and at market prices.

The Bank's related parties include:

Shareholders of the Bank

- Bausparkasse Wüstenrot AG

Other entities in the group

- Wüstenrot poisťovňa, a.s.,
- Wüstenrot Datenservice GmbH.,
- Wüstenrot Reality s.r.o.

Subsidiaries of the Bank

- Wüstenrot Servis, spol. s r.o.

Statutory bodies of the Bank

- Members of the Supervisory board,
- Members of the Board of Directors

Other related parties of the Bank

- None identified
-

6.28.1 Transactions with the Bank's shareholders and other entities in the group

in thousands of EUR

	31.12.2020			31.12.2019		
	Shareholders of the Bank	Other entities in the group	Subsidiaries of the Bank	Shareholders of the Bank	Other entities in the group	Subsidiaries of the Bank
Loan provided	0	0	541	0	0	515
Other loans and advances	0	1	0	0	0	0
Total assets as at 31.12.	0	1	541	0	0	515
Financial liabilities	0	0	0	0	0	0
Other liabilities	0	158	0	0	154	0
Total liabilities as at 31.12.	0	158	0	0	154	0

in thousands of EUR

	31.12.2020			31.12.2019		
	Shareholders of the Bank	Other entities in the group	Subsidiaries of the Bank	Shareholders of the Bank	Other entities in the group	Subsidiaries of the Bank
Interest income	0	0	22	0	0	22
Other operating income	0	270	0	0	352	0
Total income as at 31.12	0	270	22	0	352	22
Financial expenses	0	0	0	0	0	0
General operating income	2	957	13	0	1 039	13
Total expenses as at 31.12	2	957	13	0	1 039	13

In 2008, the Bank approved a credit line to the subsidiary Wüstenrot Servis spol. s r.o. in the total amount of EUR 963 thousand, which was reduced during 2012 by EUR 767 thousand. Until 31 December 2012, an approved loan in the full amount of EUR 767 thousand was granted. The loan was provided at a fixed interest rate of 0.1% p.a. and with a maturity of 22 years. On the initial recognition, the Bank measured the loan at fair value and recognised a capital contribution to the subsidiary in the amount of the revaluation difference, which as at 31 December 2020 amounted to EUR 308 thousand (2019: EUR 329 thousand).

The Bank uses banking and accounting software from Wüstenrot Datenservice GmbH. As at 31 December 2020, amortisation of software represents the amount of EUR 279 thousand (2019: EUR 334 thousand). As at 31 December 2020, the net book value of software is EUR 1 230 thousand (31.12.2019: 1 401 thousand) and net book value of disposed software is in the amount of EUR 44 thousand as at 31 December 2020. The largest part of operating costs in transactions with related parties is maintenance and rental.

6.28.2 Statutory bodies transactions

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Deposits	141	119
Total liabilities as at 31.12.	141	119

<i>in thousands of EUR</i>	31.12.2020	31.12.2019
Wages and bonuses	221	215
Mandatory levies	52	43
Total expenses	273	258

As at 31 December 2020, the Bank created a short-term provision for remuneration for the performance of the function of members of the Board of Directors for 2020 in the amount of EUR 78 thousand (2019: EUR 90 thousand).

The Bank's costs for accommodation of members of the Board of Directors as at 31 December 2020 in the amount of EUR 6 thousand (2019: EUR 6 thousand).

6.29 Contingent liabilities and commitments

The Bank creates a provision for litigation against the Bank's former employees and advisors (Note 6.12).

Based on approved loan agreements, as at 31 December 2020, the Bank recognises loan commitments in the net amount of EUR 7 090 thousand (2019: EUR 8 477 thousand).

The Bank also recognises contingent loan commitments. By concluding a construction savings contract, the client will be entitled to a housing loan if he meets the agreed conditions like the minimum savings period, saving the required minimum amount and proving sufficient creditworthiness. If all home savers decide to use this option, they will meet the conditions, including proof of sufficient creditworthiness and would ask the Bank to provide a housing loan in the future, the value of such housing loans could reach up to EUR 393 215 thousand (2019: EUR 391 834 thousand).

Taxation

As many areas of the tax law applicable have not been sufficiently tested in practice, there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. It will be reduced only if legal precedents or official interpretations are available. The Board of Directors of the Bank is not aware of any circumstances that may give rise to a future material expense in this respect.

6.30 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If market prices are available (in this case, in particular for securities traded on a stock exchange and in active markets), an estimate of fair value is based on market prices. All other financial instruments were valued using internal valuation models, including present value models, or the opinion of an external expert was used.

The fair values and their carrying amounts of financial instruments are disclosed in the following table:

in thousands of EUR

		<i>Carrying amount</i>			<i>Fair value</i>		
		<i>At</i>	<i>At fair</i>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
		<i>amortised</i>	<i>value</i>	<i>carrying</i>			<i>fair</i>
		<i>cost</i>		<i>amount</i>			<i>value</i>
		Note					
31.12.2020							
Financial assets							
Cash and cash equivalents		6.1	448	0	448	0	448
Investments in debt securities		6.2	17 489	47 079	64 568	64 172	0
Loans and advances to customers		6.3	369 045	0	369 031	0	462 651
Other financial assets		6.8	33	0	33	0	33
			387 015	47 079	434 080	64 172	481
							462 651
							529 412
Financial liabilities							
Deposits from customers		6.9	382 235	0	382 235	0	394 141
Deposits from banks		6.10	10 898	0	10 898	0	10 898
Other financial liabilities		6.15	976	0	976	0	976
			394 109	0	394 109	0	406 015
							406 015

in thousands of EUR

		<i>Carrying amount</i>			<i>Fair value</i>		
		<i>At</i>	<i>At fair</i>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
		<i>amortised</i>	<i>value</i>	<i>carrying</i>			<i>fair</i>
		<i>cost</i>		<i>amount</i>			<i>value</i>
		Note					
31.12.2019							
Financial assets							
Cash and cash equivalents		6.1	1 294	0	1 294	0	1 294
Investments in debt securities		6.2	22 687	69 810	92 497	94 228	0
Loans and advances to customers		6.3	370 385	0	370 385	0	461 924
Other financial assets		6.8	168	0	168	0	168
			394 550	69 810	464 360	94 228	1 462
							461 924
							557 614
Financial liabilities							
Deposits from customers		6.9	393 707	0	393 707	0	400 546
Deposits from banks		6.10	29 698	0	29 698	0	29 698
Other financial liabilities		6.15	1 109	0	1 109	0	1 109
			424 514	0	424 514	0	431 353
							431 353

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

Investments in debt securities

The fair value of investments in debt securities is determined using quoted market prices or theoretical prices by discounting future cash flows at the interbank market reference interest rate for the relevant term of the instrument.

For securities (government bonds), which were traded in the Bratislava Stock Exchange in the period no more than 1 month before 31 December 2020, or 31 December 2019, the price of the last trade was used.

The Bloomberg price is used to determine the market price of a financial instrument. If such a price is not available, the theoretical price of the security shall be determined. The theoretical price of a debt instrument is determined by calculating the present value of future expected payments by discounting the yields to maturity derived from the relevant government bond market yield curve adjusted by a risk premium. The yield curve is constructed from the yield values to maturity for debt securities for different remaining maturities. The other points of this market yield curve corresponding to the remaining maturities of debt securities for which there is no yield to maturity are determined by linear interpolation.

Loans and advances to customers

Loans and advances to customers are stated at net value, i.e. net of impairment allowances. For accounts with a remaining maturity of less than three months, it is appropriate to consider their carrying amount as an approximation of fair value. The fair values of other loans and advances to customers are calculated by discounting future cash flows using current market rates and estimated risk margins.

Deposits from customer

The fair values of current accounts and term deposits with a remaining maturity of less than three months are an approximate of their carrying amount. The fair values of other customer accounts are calculated by discounting future cash flows using current deposit rates.


Interest rates used in the fair value calculation of financial instruments:

<i>in %</i>	31.12.2020	31.12.2019
Loans and advances to customers		
- intermediate loans	1.20	1.37
- construction loans	1.15	1.39
Customer accounts	1.00	1.31


6.31 Events after the reporting date

After 31 December 2020 until the date of approval of these financial statements for issue, no other events with a significant effect on the accurate presentation of the facts subject to accounting occurred.

Signatures of statutory body members of the Bank:



Ing. Marián Hrotka, PhD.
Member of the Board of Directors
Wüstenrot stavebná sporiteľňa, a.s.



JUDr. Katarína Novotná
Authorized signatory
Wüstenrot stavebná sporiteľňa, a.s.

Person responsible for bookkeeping and preparation of the financial statements:



Ing. Silvia Karcolová
Director of Economic department
Wüstenrot stavebná sporiteľňa, a.s.