Privatbanka, a.s.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

AND

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Privatbanka, a.s.

2017
ANNUAL REPORT

Contents

INTRODUCTION

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

1. IDENTIFICATION OF THE REPORTING ENTITY

Business name:	Privatbanka, a.s.
Seat:	Einsteinova 25, 851 01 Bratislava
Identification Number:	31634419
Date of incorporation:	9 August 1995
Founder:	Fond národného majetku Slovenskej republiky, Drieňova 27, 821 01 Bratislava, Slovak Republic, Slovenská poisťovňa, a.s., Strakova 1, 815 74 Bratislava, Slovak Republic, Slovenská sporiteľňa, a.s., Zelená 2, 816 07 Bratislava, Slovak Republic
Share capital:	EUR 25 120 648.06
Contact person:	Ing. Eva Hirešová
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2. SCOPE OF BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

XII. Services related to the underwriting of financial instruments
17. Provision of payment services and settlement
18. Issue and administration of electronic money

3. PUBLICATION OF THE ANNUAL REPORT

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

4. CONSOLIDATED FINANCIAL STATEMENTS

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

Pursuant to Article 22 (12) of Act 431/2002 Coll. on Accounting, as amended the Bank did not prepare consolidated financial statements for the year ended 31 December 2017, since the subsidiary Privatfin, s.r.o., with its registered seat at Einsteinova 25, 851 01 Bratislava, Company ID: 36 037 869, does not have a significant impact on the Bank's consolidation group. The judgment on the financial position, expenses, revenues and results of operations of the Bank's consolidation group has not been significantly affected by preparing only the Bank's separate financial statements.

5. AUDIT OF FINANCIAL STATEMENTS

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

The Bank's financial statements as at 31 December 2017 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, were audited by Deloitte Audit s.r.o., with its registered seat at Digital Park II, Einsteinova 23, 851 01 Bratislava, Licence SKAu No. 014 on 12 March 2018.

6. REPORT ON FINANCIAL POSITION

a) INFORMATION ABOUT THE BANK'S DEVELOPMENT, PRESENT CONDITIONS OF THE BANK AND SIGNIFICANT RISKS AND UNCERTAINTIES THE BANK FACED IN THE 2017 PERIOD

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

As at 31 December 2017, total assets amounted to EUR 657 542 thousand. Total assets increased by 6% compared to the previous year-end.

The Bank reported an after-tax profit of EUR 9 436 thousand representing an increase of 4% year-on-year. At the end of 2017, operating profit amounted to EUR 11 942 thousand, an increase of 12% year-on-year.

Comparison of Financial Indicators

EUR '000	31.12.2017	31.12.2016	Change	Change in %
Total assets	657 542	618 680	38 862	6%
Cash and balances with central banks	71 199	37 698	33 501	89%
Loans and advances to banks	13 126	11 036	2 090	19%
Loans and advances to customers	342 425	289 178	53 247	18%
Securities	227 242	276 666	(49 424)	(18%)
Due to banks	91 596	96 212	(4 616)	(5%)
Deposits from customers	463 758	439 932	23 826	5%
Debt securities issued	18 045	6 782	11 263	166%
Share capital	25 121	25 121	-	0%
Equity	77 708	68 526	9 182	13%
Regulatory capital	67 917	59 101	8 816	15%
Adequacy of regulatory capital	13,38%	12,82%	0.56%	

Net interest income remains the most significant source of the Bank's profit in 2017 amounting to EUR 11 558 thousand. Net interest income was at a comparable level as in the previous year and it decreased by EUR 11 thousand year-on-year. During the year, market interest rates remained low, which resulted in a decrease in interest rates on the loan and securities portfolios. As regards liabilities, interest rates on primary sources decreased.

Net fee and commission income significantly contributed to the Bank's profit and amounted to EUR 11 539 thousand, which is comparable with net interest income. Net fee and commission income increased by EUR 1 704 thousand year-on-year, an increase of 17%.

Net income from security trading and net income from foreign currency and derivative transactions substantially contributed to the Bank's total profit, which amounted to EUR 493 thousand as at the year-end.

At the end of 2017, the amount of provided loans was EUR 342 425 thousand, an increase of 18% year-on-year. At the end of 2017, the value of the securities portfolio was EUR 227 242 thousand.

As regards liabilities, deposits from customers increased by 5% year-on-year and totalled EUR 463 758 thousand as at 31 December 2017.

At the end of 2017, operating expenses amounted to EUR 11 649 thousand, a year-on-year decrease of 2%. As regards operating expenses, general operating expenses amount to EUR 11 229 thousand (year-on-year decrease of 2%) and the depreciation and amortisation of tangible and intangible assets to EUR 420 thousand (year-on-year increase of 12%).

As at 31 December 2017, adequacy of regulatory capital amounted to 13.38% and increased by 0.56% in 2017.

The Bank has no impact on the environment. The Bank's activities in 2017 had no principal impact on employment in individual regions of the Slovak Republic.

The Bank is not aware of any risks or uncertainties that would have a significant impact on its activities in 2017.

Further details regarding the Bank's results for 2017 are disclosed in the financial statements and notes thereto.

b) INFORMATION ABOUT EVENTS OF PARTICULAR IMPORTANCE THAT OCCURRED AFTER THE END OF THE REPORTING PERIOD AS AT 31 DECEMBER 2017
(Article 20 (1) (b) of Act No. 431/2002 Coll. on Accounting, as amended)

As at the Annual Report date, there were no significant events that occurred after the end of the reporting period as at 31 December 2017 and that would require a significant adjustment to the data or information disclosed in the financial statements as at 31 December 2017.

c) INFORMATION ABOUT THE BANK'S ANTICIPATED ECONOMIC AND FINANCIAL POSITION IN 2018
(Article 77 (2) (d) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)
(Article 20 (1) (c) of Act No. 431/2002 Coll. on Accounting, as amended)

In 2017, the Bank posted a profit/(loss) in line with the plan with respect to most indicators, and the post-tax profit significantly exceeded the plan.

In 2018, private banking and directly-related activities (primarily asset management and treasury) remain the principal area for the development of the Bank's activities. In addition to private banking, the Bank will continue to focus on corporate banking, particularly the provision of loans to corporate clients.

In private banking, the Bank's goal for 2018 is to continue to increase the volume of clients' assets managed by the Bank. Qualitatively, the aim of the Bank is to provide private clients with highly-individual and flexible services, especially as regards asset management and other related areas. Issuance of corporate promissory notes and corporate bonds to be arranged by the Bank primarily for shareholder group entities will continue to represent a major part of the product range. In addition to securities sold to clients, the Bank will focus also on the active management of securities in its portfolios. This is an important role, as securities constitute a significant portion of the Bank's assets.

As regards corporate banking, the Bank will continue to develop its existing loan portfolio to further increase the Bank's capital and funding options and follow up on the successful results of previous years in this segment. As regards strategy, the Bank continues to apply its proven method of providing loans based on adequate security and the client's track record.

In 2018, the aim of the Bank is to maintain or partially expand the product range for common clients, to which it provides services through a network of regional investment centres and branches. Funds from the general public represent a substantial share of the funds base of the Bank's balance sheet business. In 2018, the Bank plans to continue the sale of public issues of corporate bonds for retail clients. In 2018, the Bank plans no major changes in its regional network.

In aggregate terms, the Bank plans to report a profit/(loss) after tax of EUR 7.4 million and total assets of EUR 707 million at the end of 2018.

The Bank will have no impact on the environment. In 2018, its activities will not substantially impact employment in individual regions of the Slovak Republic.

The Bank is not aware of any risks or uncertainties that could have a significant impact on its activities in 2018.

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

In 2017, the Bank records no costs of research and development.

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

The Bank does not carry out the said transactions.

f) INFORMATION ABOUT THE PROPOSED 2017 PROFIT DISTRIBUTION
(Article 20 (1) (f) of Act No. 431/2002 Coll. on Accounting, as amended)

EUR '000	2017
Allotment to retained earnings	9 436
Profit for the current reporting period after tax	**9 436**

g) INFORMATION ABOUT THE 2016 PROFIT DISTRIBUTION
(Article 77 (2) (c) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

EUR '000	2016
Allotment to retained earnings	9 111
Profit for the preceding reporting period after tax	**9 111**

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

No special regulations apply to the Bank.

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

The Bank does not have an organisational unit abroad.

j) SUMMARY OF RECEIVED BANK LOANS AND OTHER LOANS

(Article 77 (2) (b2) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

EUR '000	2017
Loan received from the ECB	72 588
Total due to banks	**72 588**

As at 31 December 2017, loans received from the ECB comprise a loan of EUR 16 160 thousand due in September 2018, a loan of EUR 30 000 thousand due in June 2020 and a loan of EUR 26 410 thousand due in March 2021. These loans are secured by securities at a fair value of EUR 88 920 thousand, which are disclosed in the Statement of Financial Position as "Available-for-sale securities", and securities at an amortised cost of EUR 24 408 thousand, which are disclosed in the Statement of Financial Position as "Held-to-maturity securities".

k) SUMMARY OF ISSUED AND OUTSTANDING SECURITIES

(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

ISIN	Type	Form	Nature	Number (pcs)	Face value (EUR, CM '000)	Description of Rights
SK1110001619	Share	Registered	Book-entry security	756 874	0,03319 EUR	Section 6l)
SK4120010679	Bond	Bearer	Book-entry security	3 354	1,00000 EUR	Section 6m)
SK4120013103	Bond	Bearer	Book-entry security	5 000	1,00000 EUR	Section 6n)
SK4120013269	Bond	Bearer	Book-entry security	1 656	1,00000 EUR	Section 6o)
SK4120013277	Bond	Bearer	Book-entry security	963	1,00000 EUR	Section 6p)
SK4120013319	Bond	Bearer	Book-entry security	7 200	25,00000 CZK	Section 6q)

I) DESCRIPTION OF RIGHTS ATTACHED TO SHARES ISIN SK1110001619

(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

a. The Company's shareholder may be an individual or legal entity. A holder of an interim certificate is also considered a shareholder.
b. The Company shall treat all shareholders equally in equal conditions.
c. The exercise of the shareholder's rights may be restricted or suspended only based on law.
d. The basic rights of a shareholder include the right to participate in the Company's management and to share the Company's profit and the Company's liquidation balance if it is dissolved by liquidation.
e. The shareholder is authorised to participate in and vote at the General Meeting, to request at the General Meeting information and explanations related to the Company's matters and to the matters of entities controlled by the Company, which are associated with the subject of discussion at the General Meeting, and to make proposals at the General Meeting and to be elected in the Company's bodies.
The above rights may be exercised only by a person authorised to exercise these rights as at the decisive date. The decisive date is a day specified in the invitation to the General Meeting or in the General Meeting notice. This day may be a day, on which the General Meeting is held, or a day before the General Meeting; however, no more than five days before the General Meeting is held. If the decisive date is not specified in this way, the day on which the General Meeting is held shall be considered the decisive date.
f. The shareholder is entitled to a share in the Company's profit (dividend), which the General Meeting decided to distribute. This share is determined by the ratio of the face value of the shareholder's shares to the face value of shares of all shareholders. The right to a dividend may be exercised towards the Company only by a person authorised to exercise these rights as at the decisive date. The decisive date to determine a person authorised to exercise the right to a dividend shall be determined by the General Meeting that decided to distribute the Company's profit, and this day may not be determined to be earlier than the fifth day after the day on which the General Meeting is held and later than the 30th day from the day on which the General Meeting is held. If the General Meeting does not specify the decisive date to determine the person authorised to exercise the right to a dividend, the 30th day from the day on which the General Meeting is held shall be considered the decisive date. The dividend is due within 60 days at the latest from the decisive date determined in line with the previous sentence. The Company shall pay the dividend to the shareholders at its own costs and risk. The shareholder is not required to return to the Company a dividend received in good faith.
g. The shareholder is entitled to a share in the liquidation balance if the Company is dissolved by liquidation.
h. The Board of Directors shall provide each shareholder upon request at the General Meeting complete and true information and explanations, which are related to the discussion at the General Meeting, or in writing within 30 days at the latest from the day on which the General Meeting is held, unless the law provides for otherwise.
i. The shareholder has the right to inspect the minutes from the meetings of the Supervisory Board; he/she shall keep such obtained information confidential.
j. The shareholder has the right to inspect at the Company's registered seat the deeds filed in the collection of deeds pursuant to a special act and to request copies of these deeds or request that they be sent to a specified address, at his/her own cost and risk.
k. The General Meeting decides by a majority of votes of the shareholders present, unless generally-binding legal regulations or Articles of Association require another type of majority.
l. A decision of the General Meeting requires a two-thirds majority of votes of the shareholders present if it decides on:
   I. A change of the Company's Article of Association;
   II. An increase in the Company's share capital;
   III. The issue of priority bonds or convertible bonds;
   IV. A conditional increase in the Company's share capital associated with an issue of priority or convertible bonds;
   V. A decrease in the Company's share capital;
   VI. The dissolution of the Company;
   VII. A change of the Company's legal form if it ceases to be a bank;
   VIII. Termination of trading of the Company's shares at a stock exchange;
   IX. The mandate of the Board of Directors to increase the share capital pursuant to Article 210 of the Commercial Code;
   X. The restriction of the shareholder's right to priority underwriting of shares if necessitated by important interests of the Company;
   XI. Other matters, if explicitly provided for in a generally-binding legal regulation.

m) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120010679
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

On 21 May 2015, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 5 000 thousand. Yields on the bonds are paid on a semi-annual basis as at 21 May and 21 November of the current period and are set at a fixed interest rate of 2.00% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 21 May 2018. The above bonds are not issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

n) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013103
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

On 24 July 2017, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis as at 24 January, 24 April, 24 July and 24 October of the current period and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 24 July 2020. The above bonds are not issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

o) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013269
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

On 18 September 2017, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis as at 18 March, 18 June, 18 September and 18 December of the current period and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 18 September 2020. The above bonds are issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

p) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013277
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

On 18 September 2017, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 3 000 thousand. Yields on the bonds are paid on a quarterly basis as at 18 March, 18 June, 18 September and 18 December of the current period and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 18 September 2020. The above bonds are issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

q) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013319
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

On 18 September 2017, the Bank issued bonds with a face value of CZK 25 000. The total issue amounted to CZK 180 000 thousand. Yields on the bonds are paid on a quarterly basis as at 18 March, 18 June, 18 September and 18 December of the current period and are set at a fixed interest rate of 0.75% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 18 September 2019. The above bonds are not issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

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

The Bank issued no convertible bonds.

s) SPECIFICATION OF THE NATURE OF ACTIVITIES AND GEOGRAPHICAL LOCATION
(Article 77 (2) (f) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)
(Article 37 (6) (a) of Act No. 483/2001 Coll. on Banks and on Amendment to and Supplementation of Certain Acts)

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

As at 31 December 2017, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and nine regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. As at 31 December 2017, the Bank also undertook banking activities in the Czech Republic based on the right to the free provision of cross-border banking services without establishing a branch in line with Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

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

The Bank's turnover was EUR 29 961 thousand in 2017.

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

The number of full-time employees was 182 as at 31 December 2017.

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

The Bank's profit before tax amounted to EUR 11 873 thousand as at 31 December 2017.

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

The Bank's income tax expenses amounted to EUR 2 437 thousand as at 31 December 2017.

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

The Bank received no subsidies from public funds in 2017.

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

The return on assets (ROA) amounted to 1.44% in 2017.

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

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

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

The Bank has strict rules limiting exposures to the risk of exchange rate fluctuations. The Bank does not open significant capital exposures and does not trade with commodities or their derivatives. The only risk factor that the Bank hedges using derivatives is the Banking Book's interest rate risk. The interest rate risk exposure of this portfolio, as well as of the Trading Book, is monitored daily using interest rate sensitivity and it is reported regularly to the relevant authorities. The Bank used exclusively interest rate swaps as standard to hedge this risk exposure resulting from the different duration of assets and liabilities.

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

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

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

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

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

APPENDIX

Privatbanka, a.s.

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

Year Ended 31 December 2017
and Independent Auditor's Report

Privatbanka

Contents

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Privatbanka, a.s.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Privatbanka, a.s. (the "Bank"), which comprise the statement of financial position as at 31 December 2017, income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud	Summary of the auditor's response to the risks
Individual Provisions for Loans and Advances to Customers	
Refer to Note No. 6 of the financial statements The assessment of required provisions for loan receivables requires management to apply a significant level of judgement. The level of individual loan loss provisions reflects assumptions made by management when evaluating the following critical areas: a) Identification of loss events for individual loan customers; b) Collateral valuation; and c) Determination of expected future cash flows.	During our audit, we evaluated the effectiveness of key controls that Bank management has established over the provision, processing and monitoring of loans, identification of impaired loan receivables and provision creation. For provisions determined on an individual loan basis, this included controls over the client's review and loan approval, recording of the provided loan, documentation completeness of the loan payout to the client, monitoring of loan repayment, regular review of collateral valuation, calculation and authorisation of provisioning by Bank management.

Due to the significance of these judgements and the amount of loans and advances to customers, the audit of individual provisions for loans to customers is a key audit matter.	We examined the appropriateness of provisioning methods on a sample of loans selected using statistical methods. During our audit, we reviewed loan documentation focussing on the recoverable amount of assets pledged in favour of the Bank, and the financial position and performance of debtors, repayment discipline and overall recoverability of loan receivables. We formed an independent view on the levels of provisions recorded while considering internal and external information. This comprised of an assessment of the work performed by the Bank's financial analysts and internal experts on the monitoring of collateral value and the determination of expected future cash flows from individual loans. We assessed the adequacy of the calculation of the estimated discounted cash flows and where we determined that other assumptions or inputs for the calculation of estimated future cash flows existed, we recalculated the provision amount taking into consideration such assumptions and compared it with the recorded provision to identify any potential errors.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

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

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

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

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

- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

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

Appointment of the Auditor

We were appointed as the statutory auditor by the Bank's statutory body based on our approval by the Bank's General Meeting held on 30. 3. 2017. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 10 years.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Bank's Audit Committee, which we issued on the same date as the date of this audit report.

Non-Audit Services

We did not provide the Bank with any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities and remained independent of the Bank when conducting the audit.

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

Bratislava, 13 March 2018

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Zuzana Letková, FCCA
Responsible Auditor
Licence SKAu No. 865

	Note	2017 EUR '000	2016 EUR '000
Assets			
Cash and balances with central banks	4.	71 199	37 698
Loans and advances to banks	5.	13 126	11 036
Loans and advances to customers	6.	342 425	289 178
Available-for-sale securities	8.	168 986	198 457
Held-to-maturity securities	9.	58 256	78 209
Investments in subsidiaries	10.	7	7
Tangible and intangible assets	11.	1 088	1 177
Tax prepayments	12.	-	118
Other assets	13.	2 455	2 800
Total assets		**657 542**	**618 680**
Liabilities and equity			
Due to banks	14.	91 596	96 212
Deposits from customers	15.	463 758	439 932
Debt securities issued	16.	18 045	6 782
Current tax liability	12.	28	-
Deferred tax liability	17.	610	682
Provisions for liabilities		-	331
Other liabilities	18.	5 797	6 215
Total liabilities		**579 834**	**550 154**
Equity			
Share capital	19.	25 121	25 121
Capital reserves and funds from profit	19.	5 024	5 024
Revaluation reserves on available-for-sale securities, including deferred tax	19.	2 271	2 618
Revaluation reserves on the translation of hedging derivative instruments, including deferred tax	19.	-	(93)
Retained earnings		45 292	35 856
Total equity		**77 708**	**68 526**
Total liabilities and equity		**657 542**	**618 680**

The notes on pages 12 to 75 form an integral part of these financial statements.

Privatbanka

Income Statement for the year ended 31 December 2017
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

	Note	2017 EUR '000	2016 EUR '000
Interest income and similar income	25.	17 203	18 987
Interest expense and similar expense	26.	(5 645)	(7 418)
Net interest income		**11 558**	**11 569**
Fee and commission income	27.	12 151	10 472
Fee and commission expense	28.	(612)	(637)
Net fee and commission income		**11 539**	**9 835**
Trading profit	29.	493	1 116
Other income		1	1
Operating income		**23 591**	**22 521**
General operating expenses	30.	(11 229)	(11 492)
Depreciation and amortisation of TA and IA	11.	(420)	(374)
Operating expense		**(11 649)**	**(11 866)**
Operating profit		**11 942**	**10 655**
(Creation)/release of impairment losses, write-off and assignment of receivables	31.	(400)	973
Net profit/(loss) on the sale of tangible assets		-	5
(Creation)/release of provisions for liabilities		331	-
Profit before taxes		**11 873**	**11 633**
Current tax	21.	(2 441)	(2 527)
Deferred tax	21.	4	5
Net profit		**9 436**	**9 111**

The notes on pages 12 to 75 form an integral part of these financial statements.

	Note	2017 EUR '000	2016 EUR '000
Profit after tax from the Income Statement		**9 436**	**9 111**
Remeasurement of available-for-sale securities		(439)	365
Deferred tax on available-for-sale securities		92	(47)
Remeasurement of cash flow hedging derivative instruments		118	75
Deferred tax on cash flow hedging derivative instruments		(25)	(18)
Comprehensive income		**9 182**	**9 486**

The notes on pages 12 to 75 form an integral part of these financial statements.

	Share capital	Retained earnings	Capital reserves and funds from profit	Revaluation reserves on available-for-sale securities (including deferred tax)	Revaluation reserves on the translation of hedging derivative instruments, (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 1 January 2017	**25 121**	**35 856**	**5 024**	**2 618**	**(93)**	**68 526**
Mandatory allotment to the reserve fund	-	-	-	-	-	-
2017 comprehensive income	-	9 436	-	(347)	93	9 182
At 31 December 2017	**25 121**	**45 292**	**5 024**	**2 271**	**-**	**77 708**

	Share capital	Retained earnings	Capital reserves and funds from profit	Revaluation reserves on available-for-sale securities (including deferred tax)	Revaluation reserves on the translation of hedging derivative instruments, (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 1 January 2016	**25 121**	**27 077**	**4 692**	**2 300**	**(150)**	**59 040**
Mandatory allotment to the reserve fund	-	(332)	332	-	-	-
2016 comprehensive income	-	9 111	-	318	57	9 486
At 31 December 2016	**25 121**	**35 856**	**5 024**	**2 618**	**(93)**	**68 526**

The notes on pages 12 to 75 form an integral part of these financial statements.

	Note	2017 EUR '000	2016 EUR '000
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	32.	13 906	12 989
(Increase)/decrease in minimum reserve deposits with the NBS		(33 176)	(7 901)
(Increase)/decrease in loans and advances to banks		330	-
(Increase)/decrease in loans and advances to customers		(54 407)	(39 918)
(Increase)/decrease in securities at fair value through profit or loss		-	255
(Increase)/decrease in available-for-sale securities		28 877	(22 457)
(Increase)/decrease in other assets		345	(1 308)
Increase/(decrease) in amounts due to banks		(4 605)	22
Increase/(decrease) in deposits from customers		24 006	22 602
Increase/(decrease) in debt securities issued – promissory notes		(99)	-
Income tax paid		(2 294)	(2 556)
Increase/(decrease) in other liabilities		100	1 256
Net cash flows from operating activities		**(27 217)**	**(37 016)**
Cash flows from investing activities			
(Increase)/decrease in held-to-maturity securities		18 931	48 074
Purchase of tangible and intangible assets		(331)	(376)
Sale of tangible and intangible assets		-	5
Net cash flows from investment activities		**18 600**	**47 703**
Cash flow from financing activities			
Increase upon issue of long-term debt securities - bonds		16 676	334
Decrease upon maturity and redemption of long-term debt securities - bonds		(5 305)	(10 349)
Net cash flows from financing activities		**11 371**	**(10 015)**
Net increase in cash and cash equivalents		**2 754**	**672**
Cash and cash equivalents at the beginning of the year	33.	**12 436**	**11 764**
Cash and cash equivalents at the end of the year	33.	**15 190**	**12 436**

The Cash Flow Statement has been prepared using an indirect method.

The notes on pages 12 to 75 form an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

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

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

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

Shareholders' structure
The shareholders' structure is as follows:

%	2017	2016
Penta Investments Ltd., Limassol	100,00	100,00
Total	**100,00**	**100,00**

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

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

The consolidated financial statements are available at Penta Investments Limited.

Investments in subsidiaries
As at 31 December 2017, the Bank had the following subsidiary:

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

Privatfin, s.r.o., with its registered office at Einsteinova 25, 851 01 Bratislava, Identification number: 36 037 869, is registered in the Commercial Register of the District Court, Bratislava I, section: Sro, No. 40865/B. The subsidiary does not perform activities in significant volumes. As at 31 December 2017, the subsidiary reported a profit of EUR 2 thousand (2016: a loss of EUR 1 thousand).

Geographical network
As at 31 December 2017, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and nine regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. As at 31 December 2017, the Bank also carried out banking activities in the Czech Republic based on the right to the free provision of cross-border banking services without establishing a branch in line with Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Members of the Board of Directors
The members of the Bank's Board of Directors as at 31 December 2017 are as follows:

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

Supervisory Board
The members of the Bank's Supervisory Board as at 31 December 2017 are as follows:

Elected by the General Meeting:

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

Elected by the employees:

3. Ing. Mgr. Milan Čerešňa	- Member	- Appointed on 24 August 2012

2. ACCOUNTING POLICIES

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

(2.1) Basis of presentation
The annual separate financial statements of the Bank (hereinafter the "financial statements") for 2017 and comparative data for 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The Bank does not prepare consolidated financial statements, in which Privatfin, s.r.o. (a subsidiary) would be included, because of its immaterial impact on the Bank's financial statements.

Standards and interpretations effective in the current period

The Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and are effective for reporting periods beginning on 1 January 2017. The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

Initial application of new amendments to the existing standards effective for the current reporting period

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);

- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);

- **Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016)**" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

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

Standards and amendments to the existing standards issued by IASB and adopted by the EU, but not yet effective

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

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

The Bank has elected not to adopt these new standards and amendments to the existing standards in advance of their effective dates. The Bank's management anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on its financial statements in the initial application period, except for IFRS 9, the application of which will have a quantifiable impact on the Bank's equity. IFRS 9 and its impact on the Bank's financial statements is summarised below.

International Financial Reporting Standard IFRS 9

In 2017, Privatbanka, a.s. implemented in its internal procedures and guidelines the requirements of the new IFRS 9 "Financial Instruments" effective for annual periods beginning on 1 January 2018. The standard covers three main areas: classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

Classification and Measurement

The new standard requires that all financial assets, except for equity securities and derivatives, are classified based on the Bank's business model, and based on contractual cash flow characteristics of individual assets. Financial assets will be classified in the following categories based on their measurement:

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

Based on an analysis performed in 2017, the Bank anticipates that, in principle, all loans and advances will continue to be measured at amortised cost, even after IFRS 9 becomes effective. Given the nature of the securities owned by the Bank, no changes to their measurement are expected as of 1 January 2018.

Impairment

IFRS 9 introduces a significant change to the calculation of provisions for impairment losses. The incurred loss principle will be replaced by the expected loss principle. The Bank must estimate and recognise expected losses for all loan receivables and financial assets which are not measured at fair value through profit or loss, including off-balance sheet liabilities.

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

Loans

Loans are assessed, measured and recognised by the Bank on a specific and portfolio basis. Loans are assessed on a specific basis if they are not included in the group of loans – portfolios. The Bank has five portfolios for internal use, which group loans with similar credit risk characteristics.

As regards provision calculation, the Bank will classify loans in accordance with IFRS 9 into 3 levels as follows:

Level 1 – standard loans: upon initial recognition of a loan when the Bank will calculate provisions based on expected losses, based on the probability of default in the following 12 months.

Level 2 – Risk-bearing loans: in the event of a significant increase in the credit risk, the Bank will calculate provisions for assets based on expected losses during the full lifecycle of a loan.

The new principle of expected losses will result in an increase of provisions for loans assessed on a specific basis in Level 1 and Level 2.

Level 3 – Default loans: the Bank will calculate provisions based on expected losses over the full lifecycle of a loan.

The related interest income will be calculated from the amortised cost of a loan receivable net of calculated provisions.

Loans will only be classified as Level 3 if there is objective evidence that the customer will default on its liability to the Bank. This approach also approximates the approach under IAS 39 and the Bank does not expect any significant changes to the amount of provisions calculated pursuant to IFRS 9 and IAS 39 for loans classified as Level 3.

For portfolio assessed loans, the Bank calculates provisions based on expected loan losses for the loan's lifecycle. The Bank does not expect any significant differences in the amount of provisions for loans classified into loan portfolios upon its transition to IFRS 9 as of 1 January 2018.

Securities

When calculating provisions for securities, the Bank applies the same approach as when calculating provisions for loans assessed on a specific basis, as described above.

Estimated impact of IFRS 9 implementation on the Bank's equity

Based on the tests performed in 2017, the Bank anticipates that due to IFRS 9 transition, the provisions will increase by approximately EUR 600 thousand compared to the balance as at 31 December 2017.

The preceding period will not be restated by the Bank.

New standards and amendments to the existing standards issued by IASB, but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in the EU as at 31 December 2017 (the effective dates stated below are for IFRS in full):

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

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

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

- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 – 2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018);

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

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

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

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

Pursuant to Article 22 (12) of Act No. 431/2002 Coll. on Accounting as amended, the Bank does not prepare consolidated financial statements for the year ended 31 December 2017, since the subsidiary Privatfin, s.r.o. does not have a significant impact on Privatbanka's consolidated group. The judgment on the financial position, expenses, revenues and results of operations of Privatbanka's consolidated group has not been significantly affected by preparing only the Bank's separate financial statements.

On 30 March 2017, the Bank's General Meeting approved the Bank's financial statements prepared in accordance with IFRS as at 31 December 2016.

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

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

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

Financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value. Other financial and non-financial assets and liabilities are measured at amortised cost or historical cost less provisions.

These financial statements were prepared under the assumption that the Bank will continue operating as a going concern for the foreseeable future.

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

(2.4) Significant accounting judgements and estimates
The presentation of financial statements in conformity with IFRS requires that the management of the Bank make judgments about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and future changes in the economic conditions, business strategies, regulatory requirements, accounting rules and/or other factors could result in a change in estimates that could have a material impact on the future reported financial position and results of operations.

Significant areas that require judgment and estimates:

- Provisions for liabilities are based on the management's judgments and represent the best estimate of the expenditures required to settle a liability of an uncertain timing or amount resulting from an obligation.
- The Bank continuously monitors the loan portfolio and performs an assessment of receivables from loan transactions on a specific or portfolio basis in order to identify client defaults and the related settlement of the client's liabilities to the Bank. Subsequently, the Bank quantifies (on a quarterly basis) the impact of default on recognised financial assets, while taking into account estimated income from received collateral. Given the current economic conditions, the final estimates may differ from the provisions for impairment losses recognised as at 31 December 2017.

(2.5) Summary of significant accounting policies

(1) Foreign currency translation

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

(2) Cash and cash equivalents

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

(3) Financial instruments – recognition and measurement

(i) Date of initial recognition

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

(ii) Initial measurement of financial instruments

The classification of financial assets and liabilities as at initial recognition depends on the purpose for which the financial assets and liabilities were acquired and also depends on their nature. At initial recognition, the financial instruments are measured at fair value, including the transaction costs.

(iii) Held-to-maturity financial investments

Held-to-maturity financial investments are those that carry fixed or determinable payments and have fixed maturities, and those which the Bank has the intention and ability to hold to maturity. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. The losses arising from the impairment of such investments are recognised in the Income Statement line "Release of provisions for securities".

(iv) Loans and advances to banks and Loans and advances to customers

"Loans and advances to banks" and "Loans and advances to customers" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Available-for-sale securities". After initial recognition, the loans and advances to banks and the loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. The losses arising from impairment are recognised in the Income Statement in "Provisions for impairment losses on loans, net, write-off and assignment of receivables".

(v) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial derivatives and securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets held for the purpose of trading and generating profit from short-term fluctuations in prices.

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

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

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

(i) Fair Value Hedge

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

Hedge accounting is discontinued if the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked. Any adjustment to a hedged item for which the effective interest method is used is amortised to income as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash Flow Hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in the Income Statement in the same period as the hedged cash flows affect the Income Statement under the same income statement line as the hedged item.

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

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

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

Hedging derivatives are defined as derivatives following the Bank's risk management strategy, the hedge relationship is officially documented and the hedging is effective [run-on], ie at the beginning and during the existence of the hedge relationship changes in fair values or cash flows from hedged or hedging items are almost fully set off against final results within the range from 80% to 125%.

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

(vi) Available-for-sale securities
Available-for-sale securities are all securities that are classified in this portfolio upon initial recognition. Also included in this portfolio are such financial investments that do not qualify to be classified in one of the following categories: held-to-maturity investments, financial instruments at fair value through profit or loss, or loans and advances to banks and loans and advances to customers. They include equity instruments, investments in mutual funds and money market, and other debt instruments.

Upon initial recognition, available-for-sale securities are measured at fair value. Unrealised gains and losses are recognised directly in equity in the "Revaluation reserves on available-for-sale securities including deferred tax". When the financial asset is sold, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in "Trading profit". Where the Bank holds more than one investment in the same financial asset, they are deemed to be disposed of on an average price basis. Interest earned while holding available-for-sale financial investments is reported using the effective interest rate as interest income in the Income Statement in "Interest income and similar income". Dividends earned while holding financial investments are recognised in the Income Statement as "Trading profit", when the right of the payment has been established. Losses arising from the impairment of such investments are recognised in the Income Statement in "Release of provisions for securities", and removed from the equity in the "Revaluation reserves on available-for-sale securities including deferred tax".

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

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

(4) Derecognition of financial assets and financial liabilities

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

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

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

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

(5) Reclassification of available-for-sale financial assets to held-to-maturity financial assets

The fair value of the financial assets as at the date of reclassification represents their new acquisition cost or amortised cost. Any previous gains or losses on these financial assets that were recognised directly in equity as “Revaluation reserve from available-for-sale securities including deferred tax" are amortised in profit/(loss) as “Interest income and similar income” over the remaining useful life using the effective interest rate method. Any difference between the new amortised cost and the amount upon maturity is also amortised over the remaining useful life of the financial assets using the effective interest rate method, similarly as in the amortisation of a discount or premium. If financial assets are subsequently impaired, a gain or loss that is recognised directly in equity will be recognised in the profit/loss in accordance with Note 2.5 point 8.

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

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

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

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

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

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

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

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

With respect to the definition of the fair value of financial instruments that are not revalued to fair value, the Bank applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market values. More-detailed information on the methods of calculation of fair values of financial instruments not revalued to fair value is provided in Note 42.

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

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

(i) Loans and advances to banks and loans and advances to customers
For loans and advances to banks and loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for individually assessed items of financial assets. If the Bank concludes that no objective evidence of impairment exists for an individually assessed financial asset and such an asset shows common indications characteristic for individual portfolios created by the Bank, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment.

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

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

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

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

In 2017, original loan portfolios were cancelled and new portfolios were created. At present, the Bank has five portfolios created for the collective (portfolio) measurement of receivables with common characteristics. The Bank's loan portfolios comprise the portfolio of loans and current account overdrafts provided to the Bank's employees, the portfolio of current account overdrafts provided to private banking customers, the portfolio of loans provided to individuals as housing loans, the portfolio of loans provided to private banking customers as loans secured by the portfolio of the customers' securities managed by the Bank and the portfolio of loans provided to the Bank's customers included in the Bank's watch list (closer monitoring).

The Bank does not have a sufficiently-long time series for the calculation of an historical default rate for the loan portfolios. The Bank developed a model for the calculation of provisions for loan portfolios. The amount of such provisions is defined as a percentage of the total portfolio value and depends on the probability of default and loss given default. The input data for the model comprise regular monthly statements reported by the National Bank of Slovakia on the status of loans in the banking sector for the preceding periods and a loan portfolio report of the bank at the year-end. The incurred but not identified loss at the end of 2017 amounts to:

- 5.56% of the total amount of the loans included in the portfolio of loans and current account overdrafts provided to employees;
- 9.37% of the total amount of the loans included in the portfolio of collateralised current account overdrafts provided to private banking customers;
- 1.28% of the total amount of the loans included in the housing loan portfolio;
- 3.26% of the total amount of the loans included in the portfolio of collateralised loans provided to private banking customers; and
- 4.18% of the total amount of the loans included in the watch list loan portfolio.

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

(ii) Held-to-maturity financial investments

For held-to-maturity investments, the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement.

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

(iii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

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

(iv) Renegotiated loans

The Bank prefers to restructure loans rather than perfect the collateral if such procedure improves or strengthens its position as a creditor. Restructuring may include the extension of repayment dates and the agreement of new credit terms and conditions. Once the terms have been renegotiated, the loan is no longer considered a past-due asset. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective assessment for impairment expressed as a provision calculated as a difference between the face value of a receivable and the present value of all expected cash flows discounted using the effective interest rate.

(9) Accrued interest income and expense

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

(10) Tangible and intangible assets

Tangible and intangible assets are recognised at historical cost less accumulated depreciation and provisions for impairment losses. Tangible and intangible assets are depreciated on a straight-line basis over estimated useful economic life as follows:

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

Land and assets under construction are not depreciated.

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

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

(11) Impairment of tangible and intangible assets

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

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

(12) Guarantees issued

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

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

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

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

(14) Recognition of income and expenses

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

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

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

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

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

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

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

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

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

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

(15) Subsidiaries and other equity investments

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

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

Subsidiaries are valued at cost less provisions for impairment.

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

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

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

3. RECOGNITION OF SELECTED ASSETS BY GEOGRAPHICAL AREA

Classification by geographical area as at 31 December 2017:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Available-for-sale securities	Held-to-maturity securities	Investments in subsidiaries
Cyprus	-	-	19 339	-	-	-
Czech Republic	266	9 497	59 477	8 383	-	-
France	-	-	60	11 510	-	-
Ireland	-	-	-	8 678	-	-
Lithuania	-	-	-	10 486	-	-
Hungary	-	-	80	-	10 073	-
Germany	-	-	-	15 183	-	-
Poland	-	2 879	6 703	19 080	8 057	-
Austria	-	-	-	15 238	-	-
Romania	-	48	-	-	-	-
Seychelles	-	-	78	-	-	-
Slovak Republic	70 642	702	270 930	23 493	18 346	7
USA	140	-	-	29 228	-	-
Switzerland	106	-	-	-	-	-
Sweden	-	-	-	8 492	-	-
Italy	-	-	-	13 904	21 780	-
United Kingdom	45	-	-	5 311	-	-
Total gross	71 199	13 126	356 667	168 986	58 256	7
Provisions (Note 7)	-	-	(14 242)	-	-	-
Total net	71 199	13 126	342 425	168 986	58 256	7

Classification by geographical area as at 31 December 2016:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Available-for-sale securities	Held-to-maturity securities	Investments in subsidiaries
Australia	-	-	-	2 081	-	-
Bulgaria	-	-	-	3 129	-	-
Cyprus	-	-	17 196	-	-	-
Czech Republic	212	8 741	58 472	8 846	-	-
France	-	-	84	11 564	-	-
Netherlands	-	330	-	-	-	-
Ireland	-	-	-	8 623	-	-
Lithuania	-	-	-	10 986	-	-
Hungary	-	-	80	-	12 645	-
Germany	-	-	-	15 038	-	-
Poland	-	150	-	19 279	7 998	-
Austria	-	-	-	15 334	-	-
Seychelles	-	-	141	-	-	-
Slovak Republic	37 183	1 815	227 435	18 773	35 340	7
USA	105	-	-	39 711	-	-
Switzerland	147	-	-	-	-	-
Sweden	-	-	-	13 283	-	-
Italy	-	-	-	18 677	22 226	-
United Kingdom	51	-	-	13 133	-	-
Total gross	37 698	11 036	303 408	198 457	78 209	7
Provisions (Note 7)	-	-	(14 230)	-	-	-
Total net	37 698	11 036	289 178	198 457	78 209	7

4. CASH AND BALANCES WITH CENTRAL BANKS

EUR '000	2017	2016
Cash on hand	2 064	1 730
Minimum reserve deposits at NBS	69 135	35 968
Total cash and balances with central banks	**71 199**	**37 698**

Receivables from central banks are not secured by any collateral.

The minimum reserve deposits are recognised as a deposit under the regulations of the National Bank of Slovakia. The amount of the reserves depends on the level of deposits accepted by the Bank. The Bank's ability to withdraw the reserve is restricted by statutory legislation; therefore, it is not included in "Cash and balances with central banks" for the purposes of cash flow statement preparation (see Note 33).

5. LOANS AND ADVANCES TO BANKS

EUR '000	2017	2016
Current bank accounts	5 717	10 574
Term deposits in banks	7 327	330
Other amounts due from banks	82	132
Total loans and advances to banks	**13 126**	**11 036**

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

6. LOANS AND ADVANCES TO CUSTOMERS

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

EUR '000	2017	2016
Loans and advances to		
entrepreneurs and corporate entities	332 332	289 551
individuals	24 335	13 857
Total loans and advances to customers, gross	**356 667**	**303 408**
Provisions for loans and advances to customers (Note 7)	(14 242)	(14 230)
Total loans and advances to customers, net	**342 425**	**289 178**

As at 31 December 2017, the 15 largest customers accounted for 43.2% of the gross loan portfolio, which amounted to EUR 154 090 thousand (2016: 42.4%, EUR 128 749 thousand).

Further details on credit risk are described in Note 40.

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

EUR '000	2017	2016
Residents		
Financial institutions	10 106	-
Non-financial institutions	238 962	216 102
Non-profit organisations	245	1 202
Self-employed	81	102
Individuals	21 525	10 030
Non-residents		
Financial institutions	39 489	34 036
Non-financial institutions	43 445	38 212
Non-profit organisations	-	-
Self-employed	4	6
Individuals	2 811	3 718
Total loans and advances to customers, gross	**356 667**	**303 408**
Provisions for loans and advances to customers (Note 7)	(14 242)	(14 230)
Total loans and advances to customers, net	**342 425**	**289 178**

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

EUR '000	2017	Share in %	2016	Share in %
Short-term loans	**98 659**		**94 527**	
Operating	31 736	8,90	55 205	18,19
Investment	54 016	15,14	21 589	7,12
Project	12 907	3,62	17 733	5,84
Long-term loans	**258 008**		**208 881**	
Operating	4 721	1,32	7 231	2,38
Investment	173 567	48,67	158 017	52,09
Project	79 720	22,35	43 633	14,38
Total loans and advances to customers, gross	**356 667**	**100,00**	**303 408**	**100,00**
Provisions for loans and advances to customers (Note 7)	(14 242)		(14 230)	
Total loans and advances to customers, net	**342 425**		**289 178**	

(d) Risk categorisation of loans to customers

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2017. Exposure information includes undrawn loan commitments and issued guarantees. The estimate of the collateral's value is a recoverable portion.

EUR '000	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions	**138 311**	**5 634**	**4,07%**	**87 719**	**67,49%**
Individuals	8 871	248	2,80%	5 448	64,21%
Of which: defaults	101	3	2,97%	-	2,97%
Entrepreneurs and corporate entities	129 440	5 386	4,16%	82 271	67,72%
Of which: defaults	760	32	4,21%	760	104,21%
Individual provisions	**218 356**	**8 608**	**3,94%**	**97 973**	**48,81%**
Non-impaired exposures	201 316	-	-	89 531	44,47%
Impaired exposures	17 040	8 608	50,52%	8 442	100,06%
Subtotal, balance-sheet items	**356 667**	**14 242**	**3,99%**	**185 692**	**56,06%**
Off-balance sheet-Retail Asset Class	3 147	-	-		
Off-balance sheet-Corporate Asset Class	29 826	-	-		
Subtotal, off-balance sheet items	**32 973**	-	-		
Total	**389 640**	**14 242**	**3,66%**		

In 2017, the interest income on impaired loans to customer amounted to EUR 962 thousand (2016: EUR 1 845 thousand).

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2016. Exposure information includes undrawn loan commitments and issued guarantees.

EUR '000	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions	**58 308**	**1 427**	**2,45%**	**57 456**	**100,99%**
Individuals	5 907	-	0,00%	5 576	94,40%
Of which: defaults	-	-	-	-	-
Entrepreneurs and corporate entities	52 401	1 427	2,72%	51 880	101,73%
Of which: defaults	-	-	-	-	-
Individual provisions	**245 100**	**12 803**	**5,22%**	**122 316**	**55,13%**
Non-impaired exposures	214 472	-	-	99 368	46,33%
Impaired exposures	30 628	12 803	41,80%	22 948	116,73%
Subtotal, balance-sheet items	**303 408**	**14 230**	**4,69%**	**179 772**	**63,94%**
Off-balance sheet-Retail Asset Class	2 694	-	-		
Off-balance sheet-Corporate Asset Class	37 259	-	-		
Subtotal, off-balance sheet items	**39 953**	-	-		
Total	**343 361**	**14 230**	**4,14%**		

7. PROVISIONS FOR IMPAIRMENT LOSSES

EUR '000	1 Jan 2017	(Creation)	Release	Use for assigned/written-off receivables	Exchange rate gain/loss	31 Dec 2017
Loans and advances to customers (Note 6)	(14 230)	(15 956)	15 397	605	(58)	(14 242)
Other assets (Note 13)	(99)	(3)	49	-	-	(53)
Total provisions	**(14 329)**	**(15 959)**	**15 446**	**605**	**(58)**	**(14 295)**

EUR '000	1 Jan 2016	(Creation)	Release	Use for assigned/written-off receivables	Exchange rate gain/loss	31 Dec 2016
Loans and advances to customers (Note 6)	(15 133)	(13 432)	14 335	-	-	(14 230)
Other assets (Note 13)	(44)	(104)	49	-	-	(99)
Total provisions	**(15 177)**	**(13 536)**	**14 384**	**-**	**-**	**(14 329)**

8. AVAILABLE-FOR-SALE SECURITIES

Breakdown of available-for-sale securities per type of security and issuer's country as at 31 December 2017:

EUR '000	Government bonds	Bank bonds	Corporate bonds	Trust units	Shares	**Total**
Czech Republic	5 761	-	2 622	-	-	**8 383**
France	-	-	11 510	-	-	**11 510**
Ireland	-	-	5 524	3 154	-	**8 678**
Lithuania	10 486	-	-	-	-	**10 486**
Germany	-	15 183	-	-	-	**15 183**
Poland	19 080	-	-	-	-	**19 080**
Austria	-	15 238	-	-	-	**15 238**
Slovak Republic	-	4 951	18 542	-	-	**23 493**
USA	-	29 228	-	-	-	**29 228**
Sweden	-	-	8 492	-	-	**8 492**
Italy	10 688	3 216	-	-	-	**13 904**
United Kingdom	-	5 311	-	-	-	**5 311**
Total	**46 015**	**73 127**	**46 690**	**3 154**	**-**	**168 986**

Breakdown of available-for-sale securities per type of security and issuer's country as at 31 December 2016:

EUR '000	Government bonds	Bank bonds	Corporate bonds	Trust units	Shares	Total
Australia	-	2 081	-	-	-	**2 081**
Bulgaria	3 129	-	-	-	-	**3 129**
Czech Republic	5 887	-	2 959	-	-	**8 846**
France	-	-	11 564	-	-	**11 564**
Ireland	-	-	5 498	3 125	-	**8 623**
Lithuania	10 986	-	-	-	-	**10 986**
Germany	-	15 038	-	-	-	**15 038**
Poland	19 279	-	-	-	-	**19 279**
Austria	-	15 334	-	-	-	**15 334**
Slovak Republic	-	-	18 721	-	52	**18 773**
USA	-	39 711	-	-	-	**39 711**
Sweden	-	-	13 283	-	-	**13 283**
Italy	13 383	5 294	-	-	-	**18 677**
United Kingdom	-	13 133	-	-	-	**13 133**
Total	**52 664**	**90 591**	**52 025**	**3 125**	**52**	**198 457**

The method for measuring the fair value of available-for-sale securities is described in Note 42.

In connection with the transfer of securities from the "available-for-sale securities" portfolio to the "held-to-maturity securities" portfolio in 2011, the Bank continues to recognise as at 31 December 2017 revaluation reserves from available-for-sale securities in the amount of EUR 19 thousand (loss) in equity; the loss will be amortised in the income statement until the maturity of these securities (2016: a loss of EUR 24 thousand). In 2017, a loss in the amount of EUR 5 thousand (2016: a loss of EUR 11 thousand) was amortised in the Income Statement line "Interest income and similar income".

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

EUR '000	2017	2016
Government bonds foreign	-	8 376
Bank bonds foreign	60 579	63 109
Corporate bonds domestic	8 217	8 429
Corporate bonds foreign	20 124	8 613
Total	**88 920**	**88 527**

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

9. HELD-TO-MATURITY SECURITIES

Breakdown of held-to-maturity securities per type of security and issuer's country as at 31 December 2017:

EUR '000	Government bonds	Bank bonds	Corporate bonds	**Total**
Hungary	-	-	10 073	**10 073**
Poland	8 057	-	-	**8 057**
Slovak Republic	18 346	-	-	**18 346**
Italy	21 780	-	-	**21 780**
Total	**48 183**	**-**	**10 073**	**58 256**

Breakdown of held-to-maturity securities per type of security and issuer's country as at 31 December 2016:

EUR '000	Government bonds	Bank bonds	Corporate bonds	**Total**
Hungary	-	-	12 645	**12 645**
Poland	7 998	-	-	**7 998**
Slovak Republic	31 313	4 027	-	**35 340**
Italy	22 226	-	-	**22 226**
Total	**61 537**	**4 027**	**12 645**	**78 209**

As at 31 December 2017, the Bank's portfolio of held-to-maturity securities included domestic government bonds at amortised cost of EUR 2 039 thousand (2016: EUR 2 037 thousand) provided as collateral to a local bank.

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

EUR '000	2017	2016
Government bonds domestic	13 359	7 352
Government bonds foreign	975	14 559
Bank bonds domestic	-	4 027
Corporate bonds foreign	10 074	10 054
Total	**24 408**	**35 992**

10. INVESTMENTS IN SUBSIDIARIES

Name	Registered office	Share in the registered capital EUR '000	Share in the reserve fund EUR '000	Share in the registered capital (%)	Carrying amount EUR '000
At 31 Dec 2017					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7
At 31 Dec 2016					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7

11. TANGIBLE AND INTANGIBLE ASSETS

a) Changes in tangible and intangible assets as at 31 December 2017

EUR '000	Tangible assets: Buildings	Tangible assets: Furniture, fittings and equipment	Tangible assets: Motor vehicles	Tangible assets: Acquisition of tangible assets	Tangible assets: Prepayments made for tangible assets	Intangible assets: Software	Intangible assets: Patents and licences	Intangible assets: Acquisition of intangible assets	Intangible assets: Prepayments made for intangible assets	Total
Cost										
At 1 Jan 2017	581	3 162	227	-	-	4 663	65	2	-	8 700
Additions	59	149	-	212	-	99	6	111	-	636
Disposals	-	(79)	-	(208)	-	(4)	-	(97)	-	(388)
At 31 Dec 2017	640	3 232	227	4	-	4 758	71	16	-	8 948
Accumulated depreciation										
At 1 Jan 2017	(198)	(2 808)	(193)	-	-	(4 259)	(65)	-	-	(7 523)
Depreciation and amortisation	(26)	(210)	(13)	-	-	(165)	(6)	-	-	(420)
Disposals	-	79	-	-	-	4	-	-	-	83
At 31 Dec 2017	(224)	(2 939)	(206)	-	-	(4 420)	(71)	-	-	(7 860)
Net book value										
At 31 Dec 2017	416	293	21	4	-	338	-	16	-	1 088

b) Changes in tangible and intangible assets as at 31 December 2016

	Tangible assets					Intangible assets				
EUR '000	Buildings	Furniture, fittings and equipment	Motor vehicles	Acquisition of tangible assets	Prepayments made for tangible assets	Software	Patents and licences	Acquisition of intangible assets	Prepayments made for intangible assets	Total
Cost										
At 1 Jan 2016	581	3 025	243	-	-	4 517	70	1	-	8 437
Additions	-	197	30	227	-	146	2	149	2	753
Disposals	-	(60)	(46)	(227)	-	-	(7)	(148)	(2)	(490)
At 31 Dec 2016	581	3 162	227	-	-	4 663	65	2	-	8 700
Accumulated depreciation										
At 1 Jan 2016	(172)	(2 707)	(229)	-	-	(4 084)	(70)	-	-	(7 262)
Depreciation and amortisation	(26)	(161)	(10)	-	-	(175)	(2)	-	-	(374)
Disposals	-	60	46	-	-	-	7	-	-	113
At 31 Dec 2016	(198)	(2 808)	(193)	-	-	(4 259)	(65)	-	-	(7 523)
Net book value										
At 31 Dec 2016	**383**	**354**	**34**	**-**	**-**	**404**	**-**	**2**	**-**	**1 177**

c) Insurance of assets

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

12. TAX PREPAYMENTS / CURRENT TAX LIABILITY

EUR '000	2017	2016
Tax prepayments	2 413	2 645
Current tax	(2 441)	(2 527)
Total	**(28)**	**118**

13. OTHER ASSETS

EUR '000	2017	2016
Positive fair value of derivatives for trading (Note 24)	100	19
Other debtors	2 013	2 429
Operating advance payments made	225	227
Inventory	15	23
Deferred expenses	155	157
Other receivables from customers	-	43
Other	-	1
Total other assets, gross	**2 508**	**2 899**
Provisions for other debtors (Note 7)	(53)	(99)
Total other assets, net	**2 455**	**2 800**

14. DUE TO BANKS

EUR '000	2017	2016
Loan received from the ECB	72 588	76 189
Term deposits of other banks	19 007	20 017
Other liabilities	1	6
Total due to banks	**91 596**	**96 212**

All payables due to banks are within maturity.

As at 31 December 2017, loans received from the ECB comprise a loan of EUR 16 160 thousand due in September 2018, a loan of EUR 30 000 thousand due in June 2020 and a loan of EUR 26 410 thousand due in March 2021. These loans are secured by securities at the fair value of EUR 88 920 thousand (31 December 2016: EUR 88 527 thousand), which are disclosed in the Statement of Financial Position as "Available-for-sale securities", and securities at amortised cost of EUR 24 408 thousand (31 December 2016: EUR 35 992 thousand), which are disclosed in the Statement of Financial Position as "Held-to-maturity securities".

15. DEPOSITS FROM CUSTOMERS

(a) Breakdown of deposits from customers per type

EUR '000	2017	2016
Current accounts	142 640	124 364
Term deposits	320 697	314 877
Savings deposits	215	260
Other	206	431
Total deposits from customers	**463 758**	**439 932**

As at 31 December 2017, the 15 largest clients accounted for 11.2% of the total deposits from customers, which represents the amount of EUR 51 997 thousand (2016: 12.9%, EUR 56 693 thousand).

A portion of the deposits from customers comprises payables to related parties. Their share of the total deposits from customers as at 31 December 2017 represented 5.5%, totalling EUR 25 497 thousand (2016: 6.6%, EUR 28 932 thousand). Additional information on exposures to related parties is described in Note 35.

All deposits from customers are within maturity.

(b) Breakdown of deposits from customers by sector

EUR '000	2017	2016
Residents		
Financial institutions	12 786	18 655
Non-financial institutions	34 915	28 216
Insurance companies	-	348
Public administration	6 484	8 506
Non-profit organisations	4 130	3 348
Self-employed	829	1 008
Individuals	354 800	326 280
Non-residents		
Financial institutions	5 373	10 576
Non-financial institutions	27 846	21 588
Non-profit organisations	128	104
Self-employed	10	-
Individuals	16 457	21 303
Total deposits from customers	**463 758**	**439 932**

16. DEBT SECURITIES ISSUED

(a) Breakdown of debt securities issued according to type

EUR '000	2017	2016
Bills of exchange	-	100
Coupon bonds	18 045	6 682
Total debt securities issued	**18 045**	**6 782**

All payables under the debt securities issued are within maturity.

(b) Summary of bonds issued

EUR ´000	Date of issue	Maturity of issue	Effective interest rate	Face value 2017	Face value 2016
Bond 17 - 2.00% 20170821	08/2014	08/2017	2,00%	-	3 139
Bond 18 - 2.00% 20180521	05/2015	05/2018	2,00%	3 354	3 512
Bond 19 - 1.30% 20200724	07/2017	07/2020	1,30%	5 000	-
Bond 20 - 1.30% 20200918	09/2017	09/2020	1,30%	1 656	-
Bond 21 - 1.30% 20200918	09/2017	09/2020	1,30%	963	-
Bond 22 - 0.75% 20190918	09/2017	09/2019	0,75%	7 049	-
Total face value				**18 022**	**6 651**
Accrued interest				23	31
Total debt securities issued				**18 045**	**6 682**

The issued bonds are bearer bonds and all bonds were issued as book-entry securities. Bonds, other than Privatbanka 18, Privatbanka 20 and Privatbanka 21 bonds, were not issued in a public offering. Bonds were not accepted at the listed securities market or any other stock market.

On 24 July 2017, the Bank issued Privatbanka 19 bonds (ISIN: SK4120013103) with a face value of EUR 1 thousand, with the total issue amounting to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The bonds are due on 24 July 2020. No request to accept the bonds at a stock exchange in the Slovak Republic or abroad will be filed for the above bonds.

On 21 August 2017, the Bank repaid the face value of 3 064 units of Privatbanka 17 bonds (ISIN: SK4120010174) totalling EUR 3 064 thousand.

On 18 September 2017, the Bank issued Privatbanka 20 bonds (ISIN: SK4120013269) with a face value of EUR 1 thousand, with the total issue amounting to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The bonds are due on 18 September 2020. As at 31 December 2017, the Bank sold 1 656 units of Privatbanka 20 bonds with a total face value of EUR 1 656 thousand. No request to accept the bonds at a stock exchange in the Slovak Republic or abroad will be filed for the above bonds.

On 18 September 2017, the Bank issued Privatbanka 21 bonds (ISIN: SK4120013277) with a face value of EUR 1 thousand, with the total issue amounting to EUR 3 000 thousand. Yields on the bonds are paid on a quarterly basis and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The bonds are due on 18 September 2020. As at 31 December 2017, the Bank sold 963 units of Privatbanka 21 bonds with a total face value of EUR 963 thousand. No request to accept the bonds at a stock exchange in the Slovak Republic or abroad will be filed for the above bonds.

On 18 September 2017, the Bank issued Privatbanka 22 bonds (ISIN: SK4120013319) with a face value of CZK 25 000, with the total issue amounting to CZK 180 000 thousand. Yields on the bonds are paid on a quarterly basis and are set at a fixed interest rate of 0.75% p.a. of the bond's face value. The bonds are due on 18 September 2019. No request to accept the bonds at a stock exchange in the Slovak Republic or abroad will be filed for the above bonds.

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

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

EUR '000	2017	2016
Residents		
Non-financial institutions	3 563	3 078
Public administartion	200	277
Non-profit organisations	45	122
Individuals	7 123	3 288
Non-residents		
Non-profit organisations	7 051	-
Individuals	63	17
Total debt securities issued	**18 045**	**6 782**

17. DEFERRED TAX LIABILITY

Deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
EUR '000	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Tangible and intangible assets	-	-	6	11	6	11
Securities - remeasurement in equity	-	-	604	696	604	696
Hedging derivative instruments - remeasurement in equity	-	(25)	-	-	-	(25)
Total	**-**	**(25)**	**610**	**707**	**610**	**682**

The deferred tax assets and liabilities have been calculated using the corporate income tax rate of 21% (2016: 21%).

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

The Bank does not expect to realise benefits from tax non-deductible provisions for impairment losses in the future. Therefore, as at 31 December 2017 the Bank did not recognise a deferred income tax asset of EUR 3 002 thousand arising from tax non-deductible provisions for impairment losses (2016: 3 009 thousand EUR).

As at 31 December 2017, the Bank does not recognise a deferred tax asset relating to provisions for bonuses of the Bank's employees and management in the amount of EUR 249 thousand (2016: EUR 208 thousand).

18. OTHER LIABILITIES

EUR '000	2017	2016
Negative fair value of derivatives for trading (Note 24)	5	126
Negative fair value of derivatives to hedge fair value (Note 24)	71	134
Negative fair value of derivatives to hedge cash flows (Note 24)	-	118
Various creditors	344	393
Settlement with employees	321	562
Social fund	19	16
Payables to the state budget	1,178	1,494
Payables to social and health insurance companies	209	308
Deferred income	65	49
Accrued expenses	2,072	2,137
Other amounts due to customers	1,507	878
Other	6	-
Total other liabilities	**5,797**	**6,215**

Movements in the social fund:

EUR '000	
Balance at 31 Dec 2016	16
Creation	59
Drawing	(56)
Balance at 31 Dec 2017	19

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

Share capital

EUR '000	2017	2016
Issued and fully paid share capital:		
756 874 ordinary shares (ISIN SK1110001619 with a face value of EUR 33.19 each)	**25 121**	**25 121**

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

The structure of the Bank's shareholders as at 31 December 2017 and 31 December 2016:

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

Legal reserve fund

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

Revaluation reserves on available-for-sale securities including deferred tax

Revaluation reserves on available-for-sale securities represent unrealised revaluation of available-for-sale securities and securities reclassified to the portfolio of held-to-maturity securities. The revaluation reserves are disclosed net of deferred tax effect. Such revaluation reserves are not available for distribution to the shareholder.

Revaluation reserves on the translation of hedging derivative instruments, including deferred tax

Revaluation reserves on the translation of hedging derivative instruments represent unrealised revaluation of hedging derivative instruments. The revaluation reserves are recognised net of deferred tax effect. Such revaluation reserves are not available for distribution to the shareholder.

20. PROPOSAL FOR DISTRIBUTION OF 2017 PROFIT

EUR '000	2017
Allotment to retained earnings	9 436
Net profit for the current reporting period	**9 436**

21. TAX REVENUE/(EXPENSE)

EUR '000	2017	2016
Current income tax	(2 441)	(2 527)
Deferred tax due to temporary differences	4	5
Total	**(2 437)**	**(2 522)**

22. RECONCILIATION OF THEORETICAL AND RECORDED INCOME TAX

	2017		
	Balance (EUR '000)	Applicable rate	Impact on tax
Theoretical tax base	11 873	21%	2 493
Permanent non-deductible differences	406	21%	85
Permanent deductible differences	-	21%	-
Tax losses carried forward - previously unrecognised deferred tax asset	-	21%	-
Unrecognised deferred tax asset - other	(453)	21%	(95)
Unrecognised deferred tax asset owing to temporary differences, utilisation of which is unceratin in the future	(92)	21%	(19)
Impact of a change of the tax rate			(27)
Adjusted tax			2 437
Effective tax expense			2 437

	2016		
	Balance (EUR '000)	Applicable rate	Impact on tax
Theoretical tax base	11 610	22%	2 554
Permanent non-deductible differences	377	22%	83
Permanent deductible differences	-	22%	-
Tax losses carried forward - previously unrecognised deferred tax asset	-	22%	-
Unrecognised deferred tax asset - other	327	22%	72
Unrecognised deferred tax asset owing to temporary differences, utilisation of which is unceratin in the future	(849)	22%	(187)
Impact of a change of the tax rate			-
Adjusted tax			2 522
Effective tax expense			2 522

23. OFF-BALANCE SHEET ITEMS

EUR '000	Off-balance sheet assets	2017	2016
1. Receivables from spot transactions with currency instruments:		2 800	-
2. Receivables from futures, forwards and swaps with currency instruments:		8 624	21 624
3. Received collaterals:		193 850	188 295
a) Immovables		106 021	90 321
b) Cash		11 183	18 179
c) Securites		37 109	40 682
d) Other		39 537	39 113

EUR '000	Off-balance sheet liabilities	2017	2016
1. Unused credit facilities		29 365	34 856
2. Issued guarantees		3 608	5 097
3. Liabilities from spot transactions with currency instruments:		2 806	-
4. Liabilities from futures, forwards and swaps:		8 600	21 983
a) With interest rate instruments		71	252
b) With currency instruments		8 529	21 731
5. Securities provided as collateral		115 367	126 556
6. Cash provided as collateral		-	330
7. Liabilities from consigned values		230 519	198 382

The whole amount of undrawn loan facilities and provided guarantees in 2017 and 2016 represents irrevocable commitments.

24. FINANCIAL DERIVATIVES

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

2017 EUR '000	Face value in off-balance sheet Receivable	 Payable	Fair value Positive	 Negative	Net fair value
Currency swaps for trading	7 899	7 804	100	(4)	96
Currency forwards for trading	725	725	-	(1)	(1)
Interest rate swaps to hedge fair value	7 000	7 000	-	(71)	(71)
Total financial derivatives	**15 624**	**15 529**	**100**	**(76)**	**24**

2016 EUR '000	Face value in off-balance sheet Receivable	 Payable	Fair value Positive	 Negative	Net fair value
Currency swaps for trading	21 624	21 731	19	(126)	(107)
Interest rate swaps to hedge fair value	7 000	7 000	-	(134)	(134)
Interest rate swaps to hedge cash flows	15 000	15 000	-	(118)	(118)
Total financial derivatives	**43 624**	**43 731**	**19**	**(378)**	**(359)**

The positive fair value of derivatives as at 31 December 2017 in the amount of EUR 100 thousand (2016: EUR 19 thousand) is recognised in "Other assets" (Note 13). The negative fair value of derivatives as at 31 December 2017 in the amount of EUR 76 thousand (2016: EUR 378 thousand) is recognised in "Other liabilities" (Note 18).

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2017 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Currency swaps for trading	7 231	489	179	-	-	**7 899**
Currency forwards for trading	-	-	725	-	-	**725**
Interest rate swaps to hedge fair value	-	7 000	-	-	-	**7 000**
Total receivables	**7 231**	**7 489**	**904**	**-**	**-**	**15 624**
Currency swaps for trading	7 206	419	179	-	-	**7 804**
Currency forwards for trading	-	-	725	-	-	**725**
Interest rate swaps to hedge fair value	-	7 000	-	-	-	**7 000**
Total payables	**7 206**	**7 419**	**904**	**-**	**-**	**15 529**

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2016 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Currency swaps for trading	19 974	697	953	-	-	**21 624**
Interest rate swaps to hedge fair value	-	-	-	7 000	-	**7 000**
Interest rate swaps to hedge cash flows	15 000	-	-	-	-	**15 000**
Total receivables	**34 974**	**697**	**953**	**7 000**	**-**	**43 624**
Currency swaps for trading	20 040	743	948	-	-	**21 731**
Interest rate swaps to hedge fair value	-	-	-	-	7 000	**7 000**
Interest rate swaps to hedge cash flows	15 000	-	-	-	-	**15 000**
Total payables	**35 040**	**743**	**948**	**-**	**7 000**	**43 731**

25. INTEREST INCOME AND SIMILAR INCOME

EUR '000	2017	2016
Interest income from amounts due from banks and central bank	24	21
Interest income from clients' current accounts	467	422
Interest income from clients' loans	12 590	12 186
Interest income from available-for-sale securities	2 723	3 534
Interest income from securities at fair value through profit or loss	-	9
Interest income from held-to-maturity securities	1 336	2 760
Interest rate swaps	63	55
Total interest income and similar income	**17 203**	**18 987**

26. INTEREST EXPENSE AND SIMILAR EXPENSE

EUR '000	2017	2016
Interest expense from amounts due to banks	277	317
Interest expense from clients' current accounts	246	263
Interest expense from clients' term deposits	4 655	6 271
Interest expense from clients' savings deposits	6	7
Interest expense from debt securities	251	307
Interest expense from loans	16	-
Interest rate swaps	194	253
Total interest expense and similar expense	**5 645**	**7 418**

27. FEE AND COMMISSION INCOME

EUR '000	2017	2016
For the following areas:		
Loans	225	251
Payments	67	76
Itemised fees	229	224
Securities trading	10 703	8 983
Portfolio management	879	895
Other	48	43
Total fee and commission income	**12 151**	**10 472**

28. FEE AND COMMISSION EXPENSE

EUR '000	2017	2016
For the following areas:		
Loans	-	2
Payments	257	257
Interbank transactions	29	28
Securities trading	299	308
Intermediation	27	42
Total fee and commission expense	**612**	**637**

29. TRADING PROFIT

EUR '000	2017	2016
Realised profit/loss from transactions with debt securities (available-for-sale)	209	100
Profit/loss from transactions with debt securities (at fair value through profit or loss)	-	(8)
Profit/loss from shares and trust units (available-for-sale)	88	696
Profit/loss from derivative transactions	203	6
Profit/loss from FX transactions	(7)	335
Other	-	(13)
Total trading profit	**493**	**1,116**

30. GENERAL OPERATING EXPENSES

EUR '000	2017	2016
Wages, salaries and social security payments	6 959	6 397
Other general operating expenses	4 270	5 095
Of which: Costs of auditing financial statements	88	91
Assurance audit services other than the audit of financial statements	-	4
Related audit services	-	-
Other non-audit services	8	1
Contributions to the Deposits Protection Fund	35	90
Special levy of financial institutions	1 130	1 087
Contribution to the Resolution Fund	38	134
Rent	781	805
Energy	178	35
Advertising costs	140	159
IT systems	352	379
Training and education	43	34
Car maintenance and fuel	45	38
Membership fees	306	212
Other services	979	922
Other operating expenses	147	1 104
Total general operating expenses	**11 229**	**11 492**

The average number of employees in 4Q of 2017 was 183 (2016: 167). The number of employees as at 31 December 2017 was 186 (2016: 168). The number of members of management as at 31 December 2017 was 6 (2016: 6).

Non-audit services and related audit services include: audit of the Bank's prudential reports, preparation of the long-form auditor's report, a review of measures of the securities trader for the NBS, information system security review, verification of financial information on targeted long-term refinancing transactions, consulting services related to MIFID II and IFRS 9.

As of 1 January 2012, banks and branches of foreign banks in Slovakia are obliged to pay a special levy (the so-called bank tax) pursuant to Act No. 384/2011 Coll. on Special Levy of Selected Financial Institutions and on Amendment to and Supplementation of Certain Acts (hereinafter the "Special Levy Act"). The banks and branches of foreign banks are obliged to pay a special levy in four quarterly instalments in the amount of one fourth of the annual rate (current annual rate: 0.2% (2016: 0.2%)) of the amount of the Bank's liabilities defined in the Special Levy Act.

The banks' obligation to pay an annual contribution to the Deposit Protection Fund arises from the provision of Article 5 (1b) of Act of the National Council of the Slovak Republic No. 118/1996 Coll. on the Protection of Bank Deposits and on Amendment to and Supplementation of Certain Acts, as amended. Pursuant to Article 6 (2) of the Deposit Protection Act, the Board of the Deposit Protection Fund determined and set in its resolution No. 2 dated 18 February 2016 the annual contribution for 2017 in the amount of 0.03%, representing 0.0075% of the average amount of deposits protected by the Act per quarter.

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

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

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

EUR '000	2017	2016
(Creation) of provisions for impairment losses (Note 7)	(15 959)	(13 536)
Release of provisions for impairment losses (Note 7)	16 051	14 384
Written-off receivables, gross	(31)	(3)
Expense for/income from the assignment of receivables	(461)	128
Total	**(400)**	**973**

32. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

EUR '000	2017	2016
Profit before income taxes	11 873	11 633
Adjustments for non-cash transactions:		
Interest income	(17 203)	(18 987)
Interest expense	5 645	7 418
Revaluation of securities recognised at fair value through profit or loss	-	7
Revaluation of derivatives for trading	(202)	(6)
Depreciation/amortisation of tangible and intangible assets	420	374
Provisions for and write-off of receivables	400	(973)
Release of provisions for liabilities	(331)	-
Income from the sale of tangible assets	-	(5)
Total before interest received/(paid)	**602**	**(539)**
Interest received	19 149	20 861
Interest paid	(5 845)	(7 333)
Profit before changes in operating assets and liabilities	**13 906**	**12 989**

33. CASH AND CASH EQUIVALENTS

EUR '000	2017	2016
Cash on hand (Note 4)	2 064	1 730
Loans and advances to banks due within 3 months	13 126	10 706
Cash and cash equivalents	**15 190**	**12 436**

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Legal disputes

The Bank conducted a review of legal proceedings pending against the Bank as at 31 December 2017 and 31 December 2016. Under the review of risks of losses from major litigations and the involved amounts, the Bank recorded a provision for such litigations amounting to EUR 331 thousand as at 31 December 2016.

The Bank recognised no litigation provision as at 31 December 2017.

b) Commitments arising from issue of guarantees

Commitments from guarantees include issued guarantees that represent an irrevocable commitment that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Based on the risk assessment as at 31 December 2017 and 31 December 2016, the Bank did not create any provisions to cover losses included in balances of undrawn loan commitments and guarantees, which are recognised in off-balance sheet accounts.

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

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

35. RELATED PARTY TRANSACTIONS

Related parties as defined by IAS 24 include:

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

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

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

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

EUR '000	Balance at 31 Dec 2017	Accruals at 31 Dec 2017	Total	Interest expense/ Interest income 2017	Fee and commision income 2017	Trading profit /loss 2017	General operating expenses 2017	(Creation) / release of provisions 2017
Receivables from the parent company								
Loans and advances to customers	-	-	-	-	-	-	-	-
Other assets	5	-	5	-	5	-	-	-
Payables to the parent company								
Deposits from customers	25	-	25	-	1	-	-	-
Other liabilities	-	-	-	-	-	-	-	-
Receivables from the parent company's related parties								
Loans and advances to banks	237	-	237	-	-	-	-	-
Loans and advances to customers	31 911	117	32 028	(452)	995	82	-	(226)
Available-for-sale securities	-	-	-	-	-	-	-	-
Other assets	982	-	982	-	8 711	223	-	-
Payables to the parent company's related parties								
Due to banks	-	-	-	-	-	-	-	-
Deposits from customers	24 930	-	24 930	(88)	253	-	-	-
Debt securities issued	45	-	45	-	-	-	-	-
Other liabilities	40	-	40	-	-	(25)	(708)	-
Unused credit facilities	3 212	-	3 212	-	-	-	-	-
Bank guarantees	537	-	537	8	-	-	-	-
Received collateral	30 152	-	30 152	-	-	-	-	-

EUR '000	Balance at 31 Dec 2017	Accruals at 31 Dec 2017	Total	Provisions as at 31 Dec 2017	Interest expense/ Interest income 2017	Fee and commision income 2017	Trading profit /loss 2017	General operating expenses 2017	(Creation) / release of provisions 2017
Receivables from subsidiaries									
Loans and advances to customers	106	-	106	(4)	4	1	-	-	(4)
Investments in subsidiaries	7	-	7	-	-	-	-	-	-
Payables to subsidiaries									
Deposits from customers	11	-	11	-	-	1	-	-	-
Receivables from management members and their related parties									
Loans and advances to customers	9	-	9	-	-	-	-	-	-
Other assets	4	-	4	-	-	7	-	-	-
Payables due to management members and their related parties									
Deposits from customers	531	-	531	-	(4)	1	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-
Other liabilities	1 067	-	1 067	-	-	-	-	(774)	-
Of which: wages and salaries plus insurance contributions	-	-	-	-	-	-	-	(774)	-
Unused credit facilities	8	-	8	-	-	-	-	-	-
Received collateral	-	-	-	-	-	-	-	-	-

EUR '000	Balance at 31 Dec 2016	Accruals at 31 Dec 2016	Total	Provisions as at 31 Dec 2016	Interest expense/ Interest income 2016	Fee and commision income 2016	Trading profit /loss 2016	General operating expenses 2016	(Creation)/ release of provisions 2016
Receivables from the parent company									
Other assets	2	-	2	-	-	2	-	-	-
Payables to the parent company									
Deposits from customers	9	-	9	-	-	2	-	-	-
Receivables from the parent company's related									
Loans and advances to banks	792	-	792	-	(4)	-	-	-	-
Loans and advances to customers	28 777	264	29 041	(226)	2 219	69	-	-	17
Available-for-sale securities	-	-	-	-	456	-	-	-	-
Other assets	1 426	-	1 426	-	-	7 560	116	-	-
Payables to the parent company's related parties									
Due to banks	-	-	-	-	1	-	-	-	-
Deposits from customers	28 212	-	28 212	-	(232)	76	-	-	-
Debt securities issued	199	1	200	-	(5)	-	-	-	-
Other liabilities	59	-	59	-	-	-	-	(797)	-
Unused credit facilities	11 943	-	11 943	-	-	-	-	-	-
Bank guarantees	537	-	537	-	8	-	-	-	-
Received collateral	22 854	-	22 854	-	-	-	-	-	-

EUR '000	Balance at 31 Dec 2016	Accruals at 31 Dec 2016	Total	Provisions as at 31 Dec 2016	Interest expense/ Interest income 2016	Fee and commision income 2016	Trading profit /loss 2016	General operating expenses 2016	(Creation)/ release of provisions 2016
Receivables from subsidiaries									
Investments in subsidiaries	7	-	7	-	-	-	-	-	-
Payables to subsidiaries									
Deposits from customers	7	-	7	-	-	-	-	-	-
Receivables from management members and their related parties									
Loans and advances to customers	13	-	13	-	1	-	-	-	-
Other assets	2	-	2	-	-	4	-	-	-
Payables due to management members and their related parties									
Deposits from customers	704	-	704	-	(6)	1	-	-	-
Other liabilities	613	-	613	-	-	-	-	(690)	-
Of which: wages and salaries plus insurance contributions	-	-	-	-	-	-	-	(690)	-
Unused credit facilities	8	-	8	-	-	-	-	-	-
Received collateral	-	-	-	-	-	-	-	-	-

Wages and salaries and social insurance expenses with respect to the statutory representatives and members of the Supervisory Board were in the amount of EUR 774 thousand as at 31 December 2017 (2016: EUR 690 thousand). Members of the Bank's bodies in 2017 and 2016 did not receive any non-cash remuneration.

36. FINANCIAL INSTRUMENTS – MARKET RISK

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

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

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

(a) Interest rate risk

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

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

As the Bank has significant positions in fixed-interest bonds in its Banking Book, a decision was made on the partial hedging of certain positions. Hedging instruments comprise interest-rate swaps through which the Bank maintains the total interest rate position of the Banking Book at an acceptable level and also eliminates profit/(loss) volatility.

The average effective interest rates of assets and liabilities as at 31 December 2016 and the periods in which these rates are remeasured are as follows:

EUR '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	0,00%	69 136	-	-	-	-	2 063	71 199
Loans and advances to banks	0,26%	13 126	-	-	-	-	-	13 126
Loans and advances to customers	3,49%	105 434	67 383	99 483	73 854	139	(3 868)	342 425
Available-for-sale securities	1,56%	20 269	16 226	9 237	120 100	-	3 154	168 986
Held-to-maturity securities	2,20%	-	407	15 623	14 156	28 070	-	58 256
Investments in subsidiaries	-	-	-	-	-	-	7	7
Total assets		**207 965**	**84 016**	**124 343**	**208 110**	**28 209**	**1 356**	**653 999**
Due to banks	0,00%	9 001	10 006	16 179	56 410	-	-	91 596
Deposits from customers	0,91%	110 569	28 919	118 916	205 222	-	132	463 758
Debt securities issued	1,29%	12	3	3 362	14 668	-	-	18 045
Total liabilities		**119 582**	**38 928**	**138 457**	**276 300**	**-**	**132**	**573 399**
Difference		**88 383**	**45 088**	**(14 114)**	**(68 190)**	**28 209**	**1 224**	**80 600**
Cumulative difference		**88 383**	**133 471**	**119 357**	**51 167**	**79 376**	**80 600**	

The average effective interest rates of assets and liabilities as at 31 December 2016 and the periods in which these rates are remeasured are as follows:

EUR '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	0,00%	35 968	-	-	-	-	1 730	37 698
Loans and advances to banks	0,10%	10 904	-	-	-	-	132	11 036
Loans and advances to customers	3,86%	61 913	89 592	54 811	75 078	218	7 566	289 178
Available-for-sale securities	1,56%	38 067	8 097	14 577	115 576	18 963	3 177	198 457
Held-to-maturity securities	3,13%	21 924	4 436	7 954	24 763	19 132	-	78 209
Investments in subsidiaries	-	-	-	-	-	-	7	7
Total assets		**168 776**	**102 125**	**77 342**	**215 417**	**38 313**	**12 612**	**614 585**
Due to banks	0,00%	18 006	2 017	-	76 189	-	-	96 212
Deposits from customers	1,28%	98 654	28 364	148 711	163 773	-	430	439 932
Debt securities issued	1,99%	100	23	3 147	3 512	-	-	6 782
Total liabilities		**116 760**	**30 404**	**151 858**	**243 474**	**-**	**430**	**542 926**
Difference		**52 016**	**71 721**	**(74 516)**	**(28 057)**	**38 313**	**12 182**	**71 659**
Cumulative difference		**52 016**	**123 737**	**49 221**	**21 164**	**59 477**	**71 659**	

The interest rate sensitivity analysis is based on the assumption of a parallel movement of the yield curve.

The table below shows the change in net profit and equity of the Bank due to possible changes in interest rates.

EUR '000	Impact on net profit	Impact on equity
2017		
+ 0,5% for all currencies	-	(1 771)
- 0,5% for all currencies	-	1 810
2016		
+ 0,5% for all currencies	-	(2 270)
- 0,5% for all currencies	-	2 326

(b) Currency risk

Currency risk is the risk of a change in the value of the Bank's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Bank manages currency risk by determining and daily monitoring of maximum limits of open positions of the banking book for individual currencies. A potential excessive open currency position of the Banking Book is immediately repurchased through an internal operation in the Trading Book. The currency risk of the trading book is limited by maximum exposure using the VaR model. The tables below show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured open currency positions as at year-end 2017 and 2016.

As at 31 December 2017, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	Total
Cash and balances with central banks	70 643	266	140	150	**71 199**
Loans and advances to banks	324	9 497	106	3 199	**13 126**
Loans and advances to customers	328 189	14 236	-	-	**342 425**
Available-for-sale securities	160 962	-	8 024	-	**168 986**
Held-to-maturity securities	58 256	-	-	-	**58 256**
Investments in subsidiaries	7	-	-	-	**7**
Total assets	**618 381**	**23 999**	**8 270**	**3 349**	**653 999**
Due to banks	91 595	1	-	-	**91 596**
Deposits from customers	431 484	16 334	4 922	11 018	**463 758**
Debt securities issued	10 993	7 052	-	-	**18 045**
Total liabilities	**534 072**	**23 387**	**4 922**	**11 018**	**573 399**
Net FX position	**84 309**	**612**	**3 348**	**(7 669)**	**80 600**

As at 31 December 2016, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	Total
Cash and balances with central banks	37 183	212	105	198	**37 698**
Loans and advances to banks	622	8 731	657	1 026	**11 036**
Loans and advances to customers	284 457	4 721	-	-	**289 178**
Available-for-sale securities	189 545	-	8 912	-	**198 457**
Held-to-maturity securities	78 209	-	-	-	**78 209**
Investments in subsidiaries	7	-	-	-	**7**
Total assets	**590 023**	**13 664**	**9 674**	**1 224**	**614 585**
Due to banks	96 206	6	-	-	**96 212**
Deposits from customers	403 903	27 232	6 224	2 573	**439 932**
Debt securities issued	6 682	-	-	100	**6 782**
Total liabilities	**506 791**	**27 238**	**6 224**	**2 673**	**542 926**
Net FX position	**83 232**	**(13 574)**	**3 450**	**(1 449)**	**71 659**

The table below is a summary of the currencies in which the Bank has more significant open positions as at 31 December 2017 and 31 December 2016. The sensitivity analysis calculates the effect of possible changes in the exchange rate against the selected currencies on the Income Statement. A positive amount reflects a net potential gain and a negative amount reflects net potential loss on the Income Statement.

EUR '000	Change in exchange rate	Impact on net profit
2017		
CHF	+10,71%	-
GBP	+17,85%	1
USD	+16,53%	45
CZK	+7,29%	36
2016		
CHF	+10,22%	-
GBP	+27,95%	(6)
USD	+21,51%	12
CZK	+1,47%	38

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

37. MANAGEMENT OF CAPITAL

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

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

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

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

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

The amount of regulatory capital as at 31 December 2017 and 31 December 2016 is as follows:

EUR '000	2017	2016
Tier 1 capital	**67 917**	**59 101**
Paid up share capital	25 121	25 121
Reserve fund and other funds created from profit	5 024	5 024
Retained earnings from previous years	35 855	26 744
Accumulated other comprehensive accounting profit/loss	2 271	2 618
(-) Intangible assets	(354)	(406)
Temporary adjustments of capital	-	-
Tier 2 capital	-	-
Subordinated debt	-	-
Regulatory capital	**67 917**	**59 101**

The indicators of the Bank's capital adequacy as at 31 December 2017 and 31 December 2016 are provided in the table below:

EUR '000	2017	2016
Adequacy of regulatory capital (%)	**13,38%**	**12,82%**
Regulatory capital	**67 917**	**59 101**
Total amount of risk exposures	**507 612**	**461 085**
RVE - credit risk and counterparty's credit risk	463 978	414 721
RE - position risk	1 798	1 893
RE - foreign exchange risk	-	2 841
RE - adjustment of the receivable measurement	1	-
RE - operational risk	41 835	41 630

The National Bank of Slovakia, as the supervising authority, requires that the Bank maintain the proportion of the regulatory capital to total risk-weighted exposure of at least 8%. As at 31 December 2017, a cushion to maintain capital in the amount of 2.5% is effective, and the Bank also applies an anti-cyclical cushion to selected exposures.

In the reporting periods, the Bank's regulatory capital exceeded the minimum requirement level of risk-weighted exposures; thus, the Bank complied with the regulatory authority's capital requirement.

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2017:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	71 199	-	-	-	-	-	71 199
Loans and advances to banks	13 126	-	-	-	-	-	13 126
Loans and advances to customers	3 420	10 413	134 949	177 897	19 615	(3 869)	342 425
Available-for-sale securities	-	10 916	19 261	135 655	-	3 154	168 986
Held-to-maturity securities	-	408	10 561	19 212	28 075	-	58 256
Investments in subsidiaries	-	-	-	-	-	7	7
Tangible and intangible assets	-	-	-	-	-	1 088	1 088
Other assets	541	1 286	-	-	-	628	2 455
Total assets	**88 286**	**23 023**	**164 771**	**332 764**	**47 690**	**1 008**	**657 542**
Due to banks	9 001	10 007	16 178	56 410	-	-	91 596
Deposits from customers	157 106	47 340	116 702	142 223	252	135	463 758
Debt securities issued	-	15	3 362	14 668	-	-	18 045
Current tax liability	-	28	-	-	-	-	28
Deferred tax liability	-	-	-	-	-	610	610
Other liabilities	2 169	1 105	-	-	-	2 523	5 797
Total liabilities	**168 276**	**58 495**	**136 242**	**213 301**	**252**	**3 268**	**579 834**
Difference	**(79 990)**	**(35 472)**	**28 529**	**119 463**	**47 438**	**(2 260)**	**77 708**
Cummulative difference	**(79 990)**	**(115 462)**	**(86 933)**	**32 530**	**79 968**	**77 708**	

The bulk of deposits from customers payable within seven days in the amount of EUR 157 106 thousand include deposits payable on demand, which are unlikely to be paid to customers within the defined interval.

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2016:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	37 698	-	-	-	-	-	**37 698**
Loans and advances to banks	11 036	-	-	-	-	-	**11 036**
Loans and advances to customers	5 240	5 640	103 192	163 790	5 190	6 126	**289 178**
Available-for-sale securities	-	10 911	14 503	150 903	18 963	3 177	**198 457**
Held-to-maturity securities	-	26 359	2 863	29 855	19 132	-	**78 209**
Investments in subsidiaries	-	-	-	-	-	7	**7**
Tangible and intangible assets	-	-	-	-	-	1 177	**1 177**
Tax prepayments	-	118	-	-	-	-	**118**
Other assets	1 231	1 057	-	-	-	512	**2 800**
Total assets	**55 205**	**44 085**	**120 558**	**344 548**	**43 285**	**10 999**	**618 680**
Due to banks	18 006	2 017	-	76 189	-	-	**96 212**
Deposits from customers	133 487	48 832	148 827	108 776	-	10	**439 932**
Debt securities issued	-	123	3 147	3 512	-	-	**6 782**
Deferred tax liability	-	-	-	-	-	682	**682**
Provisions for liabilities	-	-	-	-	-	331	**331**
Other liabilities	1 962	1 277	-	-	-	2 976	**6 215**
Total liabilities	**153 455**	**52 249**	**151 974**	**188 477**	**-**	**3 999**	**550 154**
Difference	**(98 250)**	**(8 164)**	**(31 416)**	**156 071**	**43 285**	**7 000**	**68 526**
Cummulative difference	**(98 250)**	**(106 414)**	**(137 830)**	**18 241**	**61 526**	**68 526**	

The bulk of deposits from customers payable within seven days in the amount of EUR 133 487 thousand include deposits payable on demand, which are unlikely to be paid to customers within the defined interval.

39. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

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

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

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2017:

EUR'000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not specified	**Total**
Due to banks	-	19 008	16 376	56 410	-	-	**91 794**
Deposits from customers	141 928	60 855	121 806	145 527	37	-	**470 153**
Debt securities issued	-	38	8 553	15 031	-	-	**23 622**
Total liabilities	**141 928**	**79 901**	**146 735**	**216 968**	**37**	**-**	**585 569**

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2016:

EUR'000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not specified	Total
Due to banks	-	20 020	-	76 230	-	-	**96 250**
Deposits from customers	123 836	58 279	148 956	115 648	-	-	**446 719**
Debt securities issued	-	131	3 241	3 547	-	-	**6 919**
Total liabilities	**123 836**	**78 430**	**152 197**	**195 425**	**-**	**-**	**549 888**

40. FINANCIAL INSTRUMENTS – CREDIT RISK

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

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

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

Factors leading to the creation of impairment losses for financial assets assessed individually in 2017:
1. The client was unable to realise its business plan in the agreed time;
2. The client failed to meet the agreed contracting terms and conditions despite the Bank's notices;
3. The client failed to repay the granted loan in a due and timely manner.

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

The Bank only creates specific provisions for loans where client (debtor) default was identified. The calculation of specific provisions is based on a comparison of the carrying amount of a financial asset and its recoverable amount, ie the sum of estimated cash flows from the financial asset and estimated cash flows from the financial asset's collateral. The positive difference arising from the two amounts is the provision amount, ie the impairment of the financial asset.

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

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

The Bank uses the expected loss given default (LGD) and the probability of default (PD) to calculate portfolio provisions. This calculation uses a PD obtained from the National Bank of Slovakia statistics and an LGD obtained from the Bank's loan portfolio. The final amount of the portfolio provision is calculated as a multiple of PD and LGD.

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

Credit exposure, collaterals

EUR '000	2017	2016
Total credit exposure	**356 667**	**303 408**
Value of received collaterals accepted by the Bank	288 505	283 134
of which: immovables	152 213	137 437
cash	10 657	18 377
securities	60 975	57 079
other	64 660	70 241
Secured portion of credit exposure	185 692	179 772
Unsecured portion of credit exposure	170 975	123 636

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

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

The most frequently-used collateral types:

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

Assumptions in estimates of collateral realisable value

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

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

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

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

Credit quality of assets not recognised as default
Overview of the quality of financial assets resulting from credit transactions that are recognised as neither past due nor default:

Clients - transaction rating - 2017	Receivables (EUR '000)	Share (%)
Rating A1 - A3	15 163	4,48
Rating B1 - B3	85 414	25,21
Rating C1 - C3	112 676	33,26
Rating D1 - D3	101 384	29,93
Retail	24 121	7,12
Total	**338 758**	**100,00**

Clients - transaction rating - 2016	Receivables (EUR '000)	Share (%)
Rating A - very good	17 915	6,57
Rating B - good	57 792	21,19
Rating C - below average	109 453	40,12
Rating D - bad	74 050	27,15
Retail	13 570	4,97
Total	**272 780**	**100,00**

Based on the balances as at 31 December 2017 and 31 December 2016, there are no clients with accredited external ratings in the Bank's loan portfolio.

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as overdue or impaired as at 31 December 2017:

Available-for-sale securities	(EUR '000)	Share (%)
A1	5,761	3.41
A2	24,605	14.56
A3	41,554	24.59
Aa2	4,951	2.93
Baa1	19,891	11.77
Baa2	25,871	15.31
Baa3	3,095	1.83
No rating	43,258	25.60
Total	**168,986**	**100.00**

Out of the securities with no rating by Moody's Investors Service, securities with a fair value of EUR 8 217 thousand and EUR 11 510 thousand have an A- rating and BBB+ rating with Standard & Poor's, respectively.

Held-to-maturity securities	(EUR '000)	Share (%)
A2	26,403	45.32
Baa2	21,780	37.39
Baa3	10,073	17.29
Total	**58,256**	**100.00**

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as overdue or impaired as at 31 December 2016:

Available-for-sale securities	(EUR '000)	Share (%)
A1	11,386	5.74
A2	19,279	9.71
A3	46,612	23.49
Aa2	2,081	1.05
Ba1	3,092	1.56
Baa1	31,189	15.72
Baa2	31,549	15.90
No rating	53,269	26.83
Total	**198,457**	**100.00**

Out of the securities with no Moody's Investors Service rating, securities at fair value of EUR 8 429 thousand have an A- rating with Standard & Poor's.

Held-to-maturity securities	(EUR '000)	Share (%)
A2	39,311	50.26
Baa2	22,226	28.42
No rating	16,672	21.32
Total	**78,209**	**100.00**

Out of the securities with no Moody's Investors Service rating, the securities at amortised cost of EUR 12 645 thousand have a BB rating with Standard & Poor's.

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

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

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

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

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

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

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

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

Ageing structure of financial assets overdue, recognised as unimpaired
As at 31 December 2017, the Bank recognised overdue loan receivables classified as unimpaired in a total amount of EUR 2 588 thousand, of which principal amounted to EUR 2 461 thousand (of which principal overdue by more than 30 days amounted to EUR 1 555 thousand), and interest and charges in the amount of EUR 127 thousand (of which interest and charges overdue by more than 30 days amounted to EUR 31 thousand).

As at 31 December 2016, the Bank recognised overdue loan receivables, which were classified as unimpaired in the total amount of EUR 483 thousand, of which principal in the amount of EUR 408 thousand (of which principal in the amount of EUR 0 thousand overdue by more than 30 days), and interest and charges in the amount of EUR 75 thousand (of which interest and charges in the amount of EUR 1 thousand overdue by more than 30 days).

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

In 2017, the Bank extended the overall maturity and adjusted repayment schedules of receivables from loan transactions in the total amount of EUR 14 419 thousand, of which short-term loans amounted to EUR 800 thousand and long-term loans to EUR 13 619 thousand.

In 2016, the Bank mainly extended the maturity of financial assets – loan receivables in the total amount of EUR 20 323 thousand, of which short-term loans amounted to EUR 1 910 thousand and long-term loans amounted to EUR 18 413 thousand.

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

As at 31 December 2017, the Bank recorded restructured assets in the amount of EUR 23 032 thousand, for which provisions amounting to EUR 5 495 thousand have been created.

Major credit risk exposures

(a) Concentrations to national economy sectors

EUR '000	2017	2016
Non-banking financial services	52 983	38 024
Manufacturing	33 702	36 320
Construction	7 368	11 333
Agriculture and forestry	3 952	3 078
Commercial real estate - cash flow based	33 727	23 556
Commercial real estate - collateral based	73 589	64 235
Commerce and services	85 497	58 491
Other	20 145	17 822
Of which: transport	*9 998*	*9 994*
Individuals	24 336	13 748
Healthcare services	15 723	29 902
Leisure, cultural and sports activities	5 645	6 899
Total	**356 667**	**303 408**

(b) Concentrations to significant groups of related clients

The Bank continuously monitors exposures to the groups of related clients to comply with regulatory limits. The maximum exposure to a debtor or an economically-connected group of clients as defined by regulations is capped at EUR 16 979 thousand owing to the amount of the Bank's capital as at 31 December 2017 (2016: EUR 14 775 thousand).

Maximum credit exposure

EUR '000	2017	2016
Cash and balances with central banks	71 199	37 698
Loans and advances to banks	13 126	11 036
Loans and advances to customers	342 425	289 178
Available-for-sale securities	168 986	198 457
Held-to-maturity securities	58 256	78 209
Investments in subsidiaries	7	7
Tax prepayments	-	118
Other assets	2 455	2 800
Total	**656 454**	**617 503**
Unused credit facilities	29 365	34 856
Issued guarantees	3 608	5 097
Total	**32 973**	**39 953**
Total credit risk exposure	**689 427**	**657 456**

41. OPERATIONAL, LEGAL AND OTHER RISKS

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

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

42. FAIR VALUES

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

EUR '000	Carrying amount 31.12.2017	Fair value 31.12.2017	Carrying amount 31.12.2016	Fair value 31.12.2016
Financial assets				
Cash and balances with central banks	71 199	71 199	37 698	37 698
Loans and advances to banks	13 126	13 127	11 036	11 036
Loans and advances to customers	342 425	356 578	289 178	298 759
Available-for-sale securities	168 986	168 986	198 457	198 457
Held-to-maturity securities	58 256	63 125	78 209	83 104
Investments in subsidiaries	7	7	7	7
Financial liabilites				
Due to banks	91 596	91 649	96 212	96 327
Deposits from customers	463 758	464 015	439 932	440 764
Debt securities issued	18 045	17 989	6 782	6 843

The method used to determine the fair values of selected financial assets as at 31 December 2017:

EUR '000	Market value **Level 1**	Own model with reference to market rates **Level 2**	Own model without reference to market rates **Level 3**	**Total**
Loans and advances to customers	-	356,578	-	**356,578**
Available-for-sale securities	158,934	10,052	-	**168,986**
Held-to-maturity securities	63,125	-	-	**63,125**
Investments in subsidiaries	-	-	7	**7**

The method used to determine the fair values of selected financial assets as at 31 December 2016:

EUR '000	Market value **Level 1**	Own model with reference to market rates **Level 2**	Own model without reference to market rates **Level 3**	**Total**
Loans and advances to customers	-	298 759	-	**298 759**
Available-for-sale securities	178 051	20 354	52	**198 457**
Held-to-maturity securities	79 068	4 036	-	**83 104**
Investments in subsidiaries	-	-	7	**7**

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

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

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

Loans and advances to customers
Loans and advances to customers are measured net of impairment losses for receivables. The fair values of loans and advances to customers are calculated by discounting the future cash flows using the current market rates increased by updated risk interest margin by loans (Level 2).

Available-for-sale securities
Available-for-sale securities are stated at quoted market prices (Level 1). If the quoted market price is not available or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods (Level 2 and Level 3). The method of calculating financial instruments' fair value is described in Note 2.5.

Securities at fair value through profit or loss
Securities at fair value through profit or loss are stated at quoted market prices (Level 1). If the quoted market price is not available or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods (Level 2 and Level 3). The method of calculating financial instruments' fair value is described in Note 2.5.

Held-to-maturity securities
Held-to-maturity securities are stated at quoted market prices (Level 1). If the quoted market price is not available or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods (Level 2 and Level 3). The method of calculating financial instruments' fair value is described in Note 2.5.

Investments in subsidiaries
Net value of assets approximates fair value.

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

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

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

43. SIGNIFICANT SUBSEQUENT EVENTS

As at the date of preparation of the financial statements, there have been no significant events that would require a material adjustment to the amounts or disclosures in the financial statements as at 31 December 2017.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were signed and authorised by the Board of Directors on 13 March 2018.

Mgr. Ing. Ľuboš Ševčík, CSc.
Chairman of the Board of Directors and
General Director

Ing. Vladimír Hrdina
Member of the Board of Directors and
Executive Director