annual report 2018

poštová banka

2018

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poštová banka

1. Address by the Managing Director

Esteemed Shareholders, Business Partners, and Colleagues,

For Poštová banka, the year 2018 was full of important changes, innovations, and new major projects for the future. From a business perspective, the year 2018 was of key importance because Poštová banka extended its activities to rely on another two business pillars. In addition to traditional banking activities, it now also attracts clients via a digital channel (365.bank) and retail hire purchase (Amico). The two companies strengthened the position of Poštová banka and extended its opportunities to address and acquire new clients, thus creating a strong competitive advantage for the company in the future.

During the year, Poštová banka continued its major repositioning in the market, which was launched in 2017. In addition to a significant shift in the age structure of new clients and a new visual identity, the year 2018 also brought about a new approach to the functioning and services offered by the bank.

As early as January, we established 322 points of sale - "Bank at the Post Office" - at 203 post offices, which gradually underwent modernization and redesign. All this was aimed at improving and extending the portfolio of our products and services at Slovenská pošta [Slovak Post] offices. In February, Poštová banka was one of the first banks to join the Google Pay project, with which we have enabled our clients to pay with their mobile phones, using Google's state-of-the-art technology. Following the notable success of the Štartovacia pôžička [Startup Loan] product with a zero interest rate in 2017, we repeated the same offer last year as well. From February, our clients could again borrow € 600, 800 or 1,000 with a 20-month repayment period. We launched a strong marketing campaign in April, within which Fantomas became the face of the bank. Fantomas accompanied us all year round and, following the Dobrá pôžička [Good Loan], he also presented clients a new mortgage product called Užitočné bývanie [Useful Housing] with an advantageous interest rate starting at 1% p.a. The campaign won many prestigious awards for creativity during the year. We also did not slow down the pace of making changes and innovation in the summer. July was in the spirit of the acquisition campaign called "Žijeme len raz" [We Only Live Once], in which we addressed many young clients with the product Junior účet [Junior Account].

September, which is traditionally associated with the beginning of a new school term, was the month in which we began to strategically support education and financial literacy. We introduced the #INSTUDY program in the market, consisting of two types of products – not only savings, but also a loan for education with attractive interest rates.

In November, Poštová banka added hire purchase to its services, immediately becoming number four in the market thanks to the acquisition of the company Amico Finance. Seeing ample room in the area of hire purchase, we expect to advance shortly to the position of number two in the market, as we have publicly declared.

The very end of 2018 was significant from the viewpoint of our subsidiaries. In December, the first mobile-first bank in Slovakia - 365.bank - was launched for the public. It primarily aims to address young clients, who no longer seek traditional banks. Within its portfolio, this bank offers an account free of charge, savings with an interest rate of 3.65% p.a. and another innovative saving product - Syslenie [Squirreling Away]. It is indeed the first bank to not require personal contact with a client. 365.bank will begin to massively attract clients in 2019.

This and many other innovations had a positive impact on the bank's financial management last year. Following the expected decrease in profitability in 2017, which was associated with the repositioning and rebranding of the bank, Poštová banka's profit grew beyond expectations over the past year.

Other subsidiaries of Poštová banka were also active and successful. In March, Prvá penzijná správcovská spoločnosť [First Pension Management Company; PPSS] launched the "Spring of Investments", during which everyone could invest in select funds with a 50% discount on the entry fee. Thanks to this step, among other things, PPSS made it among the three strongest management companies in Slovakia in terms of market share in the fall. While other strong players were stagnating or even declining, PPSS was growing.

The end of the year was also important for Poštová poisťovňa [Postal Insurance Company], which was nominated among the top five in the TOP Trend "Insurance Company of the Year" competition.

The past year was not merely about new Poštová banka products and services. We also did not forget about the principles of business based on corporate social responsibility. At the beginning of the year, Nadácia Poštovej banky [Poštová banka Foundation] handed out € 50,000 and, through the Nápad pre Folklór [Idea for Folklore] grant, supported projects striving to preserve cultural heritage. This is why we also supported an educational concert for elementary and high school students in Banská Bystrica. In connection with the Instudy program, the bank also announced a new grant program called "Nápad pre školy" [Idea for Schools] in 2018. It is aimed at supporting education in the area of financial literacy in high schools and elementary schools.

We also did not forget about our long-term partners, such as the Radošinské naivné divadlo [Naive Theatre of Radošina] and Jednota dôchodcov Slovenska [Association of Pensioners in Slovakia]. Before Christmas, our employees helped 60 children from socially disadvantaged families via the Stromček splnených prianí [Tree of Fulfilled Wishes] program.

The bank is trying to apply a responsible approach not only to its surroundings, but also to the people who are working for us. The fact that we are successful in this regard has also been confirmed by the fact that this was the second year that we took second place in the Banking, Finance and Insurance category of the prestigious Best Employer survey. In 2018, we supported further improvement to the working conditions of our employees by raising their monthly salaries by 6.3 per cent on average.

The year 2018 can thus be considered successful. In addition, we also laid the foundations for the bank's further growth in the future. For all this, it is necessary to thank our employees, without whom a new and more modern Poštová banka would have remained only on paper. We are also grateful to our shareholders, who believed in the transformation of Poštová banka and fully supported it. I am happy that this has already begun to bear fruit for them in the form of growing profits.

I firmly believe that the year 2019 will be equally successful and we will bring many successful and innovative services to the market, which will make our clients happy as well.

Ing. Andrej Zaťko

2. General information about the Company

Trade name:	**Poštová banka, a. s.**
Registered office:	**Dvořákovo nábrežie 4, 811 02 Bratislava**
Identification number [IČO]:	**31 340 890**
Date of incorporation:	**31 December 1992**
Legal form:	**Joint stock company**

Scope of activities:

a) Pursuant to Article 2 (1) and (2) of the Act on Banks:

1. Acceptance of deposits;
2. Provision of loans;
3. Provision of payment services and clearing;
4. Provision of investment services, investment activities and ancillary services pursuant to the Act on Securities, to the extent referred to in Section (b) of this point, and investment into securities on own account;
5. Trading on own account in
   a) financial money market instruments in euros and foreign currency, including exchange activities;
   b) financial capital market instruments in euros and foreign currency;
   c) precious metal coins, commemorative bank notes and commemorative coins, bank notes sheets, and sets of coins in circulation;
6. Administration of clients' receivables in their accounts, including related consulting;
7. Financial leasing;
8. Provision of guarantees, opening and certification of letters of credit;
9. Provision of consulting services in the area of business activities;
10. Issuance of securities, participation in issuance of securities and provision of related services;
11. Financial intermediation;
12. Safe custody of assets;
13. Renting of safe deposit boxes;
14. Provision of bank information;
15. Activities as a depository;
16. Handling of banknotes, coins, commemorative banknotes and commemorative coins;
17. Issuance and administration of electronic money;
18. Financial intermediation according to special legislation as an independent financial agent in the sector of insurance and reinsurance;
19. Financial intermediation according to special legislation as an independent financial agent in the sector of old-age pension saving.

b) Pursuant to Article 79a (1) in conjunction with Article 6 (1) and (2) of the Act on Securities:

1. Acceptance and forwarding of client's instruction concerning one or several financial instruments in relation to the following financial instruments:
   a) negotiable securities;

b) money market instruments;
c) securities and ownership interests of entities of collective investment;
d) options, futures, swaps, forwards and other derivatives connected with securities, currencies, interest rates or revenues, which may be settled by delivery or in cash;

2. Execution of client's instruction on their account in relation to the following financial instruments:
   a) negotiable securities;
   b) money market instruments;
   c) securities and ownership interests of entities of collective investment;
   d) options, futures, swaps, forwards and other derivatives connected with securities, currencies, interest rates or revenues, which may be settled by delivery or in cash;
3. Trading on own account in relation to the following financial instruments:
   a) negotiable securities;
   b) money market instruments;
   c) securities and ownership interests of entities of collective investment;
   d) options, futures, swaps, forwards and other derivatives connected with securities, currencies, interest rates or revenues, which may be settled by delivery or in cash;
4. Investment consulting in relation to the following financial instruments:
   a) negotiable securities;
   b) money market instruments;
   c) securities and ownership interests of entities of collective investment;
   d) options, futures, swaps, forwards and other derivatives connected with currencies, interest rates or revenues, which may be settled by delivery or in cash;
5. Subscription and placement of financial instruments on the basis of fixed commitment in relation to the following financial instruments:
   a) negotiable securities;
   b) securities and ownership interests of entities of collective investment;
6. Placement of financial instruments without fixed commitment in relation to the following financial instruments:
   a) negotiable securities;
   b) securities and ownership interests of entities of collective investment;
7. Custody and administration of financial instruments on the client's account, including custodianship and related services, particularly administration of cash and financial collateral, in relation to the following financial instruments:
   a) negotiable securities;
   b) money market instruments;
   c) securities and ownership interests of entities of collective investment;
8. Provision of loans and borrowings to investors to facilitate the realization of transactions involving one or several financial instruments, in cases where the lender is involved in such transactions;
9. Realization of transactions in foreign exchange assets if these are connected with the provision of investment services;
10. Execution of investment survey and financial analysis, or another form of general recommendation concerning trading in financial instruments;
11. Services related to the subscription of financial instruments.

Share capital: € 366,305,193
Paid-up share capital: € 366,305,193

3. Company structure

Board of Directors

Ing. Andrej Zaťko

Chairman of the Board of Directors and Managing Director

Chairman of the Board of Directors from 12 August 2015
Graduated from the Department of Economic Informatics at the University of Economics in Bratislava, where he specialized in information technology. From 2011, he was a member of the Board of Directors of J&T BANKA, a.s. (Czech Republic). From November 2012, he held the position of director and organizational unit head at the company J & T BANKA, a.s. in the Slovak Republic - J & T BANKA, a.s., branch of a foreign bank. On 12 August 2015, he became Chairman of the Board of Directors of Poštová banka, a.s. At the same time, he holds the position of Managing Director of Poštová banka, a.s.

Ing. Peter Hajko

Member of the Board of Directors

Member of the Board of Directors from 3 December 2015
Graduated from the Department of Economic Informatics at the University of Economics in Bratislava. He was active in the banking sector in 1997–2000, working for Všeobecná úverová banka, a.s. and then in several positions at Tatra banka, a.s. in 2000-2015, lastly as director of a regional branch, where he was responsible for management of the branch network in the regions of Bratislava-West and Nitra in the area of sales, servicing, and service quality for retail clients. He joined Poštová banka a.s. in October 2015, assuming the position of Director of the Retail Banking Division. He was elected a member of the Poštová banka, a.s. Board of Directors on 3 December 2015. He is responsible for the area of sales.

RNDr. Zuzana Žemlová

Member of the Board of Directors

Member of the Board of Directors from 20 June 2017
Graduated from the Comenius University Department of Mathematics and Physics in Bratislava. She has been active in the banking sector since 1995. In 1995-2009, she worked for Citibank (Slovakia) a.s., where she held several management positions in the area of audit, independent control and management of risks. She was a member of the Board of Directors of the company UniCredit Bank Slovakia a. s. from 2010 to 2013 and a member of the Board of Directors of the company Sberbank Slovakia from 2013 to 2016. In her position as member of the Board of Directors in both companies, she was responsible for all risk management areas, including credit, market, and operational risks. Starting 20 June 2017, she assumed responsibility for risk management, finance and back office as a member of the Board of Directors of Poštová banka a.s.

Supervisory Board

Ing. Jozef Tkáč // Chairman of the Supervisory Board - in office from 30 November 2018
Ing. Vladimír Ohlídal, CSc. // Member of the Supervisory Board
Ing. Jan Kotek // Member of the Supervisory Board - in office from 4 May 2018
Mario Hoffmann // in office until 29 April 2018
Jozef Kiss // in office until 17 November 2018

Shareholders structure as at 31 December 2018			Country	Identification number (IČO)	Number of shares	Share in %	Value per share	Share capital in €
J&T FINANCE GROUP SE	Pobřežní 297/14	186 00 Praha 8	Czech Republic	27592502	213,288	64,45	1 107	236 109 816
PBI, a. s.	Sokolovská 394/17, Karlín	186 00 Praha 8	Czech Republic	03633527	112,506	34,00	1 107	124 544 142
Slovenská pošta, a. s.	Partizánska cesta 9	975 99 Banská Bystrica	Slovak Republic	36631124	4,918	1,49	1 107	5 444 226
Ministerstvo dopravy a výstavby Slovenskej republiky	Námestie slobody 6	810 05 Bratislava	Slovak Republic	30416094	100	0,03	1 107	110 700
UNIQA Versicherungen AG	Untere Donaustraße 21	A-1029 Wien	Austria	63197 m	87	0,03	1 107	96 309
					330,899	100,00		366 305 193

Company name	Number of shares owned by Poštová banka	Share of Poštová banka in share capital (in %)	Share of Poštová banka in share capital (in €)
365.fintech, a. s.	1 000	100	1 000 000,00
PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.	50 000	100	1 700 000,00
Poštová poisťovňa, a. s.	278 640	80	9 248 061,60
Dôchodková správcovská spoločnosť Poštovej banky, d. s. s., a. s.	36	100	11 949 810,48
PB Servis, a. s.	120	100	600 000,00
PB PARTNER, a. s.	46 000	100	4 600 000,00
PB Finančné služby, a. s.	3	100	99 582,00
SPPS, a. s.	24	40	140 000,00
Amico Finance a. s.	600	95	570 000, 00

poštová banka

pb finančné služby
ČLEN SKUPINY POŠTOVEJ BANKY

poštová poisťovňa
ČLEN SKUPINY POŠTOVEJ BANKY

prvá penzijná
ČLEN SKUPINY POŠTOVEJ BANKY

pb servis

dôchodková správcovská
ČLEN SKUPINY POŠTOVEJ BANKY

amico finance
ČLEN SKUPINY POŠTOVEJ BANKY

nadácia poštovej banky

4. Main events

January

Change in points of sale at select post offices
A total of 322 "Bank at the Post Office" points of sale were established at 203 post offices, which gradually underwent modernization and redesign.

Poštová banka Foundation handed out € 50,000
The Poštová banka Foundation handed out € 50,000. Thanks to its grant called "Idea for Folklore", it supported ideas aimed at preserving cultural heritage.

Second place in the Best Employer survey
This was the second consecutive year that Poštová banka took second place in the Banking, Finance and Insurance category of the prestigious Best Employer survey.

Mortgage loan for young people
The sale of a mortgage loan for young people of up to 35 years of age with the possibility of obtaining a tax bonus was launched.

February

We brought the Google Pay application to our clients
Poštová banka introduced the Google Pay service in cooperation with the company Google. Clients can make secure payments with their mobile telephones.

Startup Loan with a zero interest rate
In February, we launched an extremely successful and simple consumer loan with a zero interest rate if certain conditions were met. Clients could borrow € 600, 800 or 1,000 with a 20-month repayment period.

Passbook for Children with a special premium
For our little ones, we established the Passbook for Children with a three-month notice period and a basic interest rate of 0.30 % p.a., in addition to a special premium of 0.30% p.a. when certain conditions were met.

24M Term Deposit with the Big Plus
In February, we linked the Big Plus to our 24M Term Deposit. After meeting certain conditions, a client receives a reward for his/her Useful Account in the same amount as interest added to this account after the end of the notice period.

March

Spring of Investments with the First Pension Management Company
The First Pension Management Company launched the "Spring of Investments," during which everyone could invest in select funds with a 50% discount on the entry fee.

April

Nová kampaň banky na spotrebný úver
Fantomas became the new marketing face of Poštová banka, launching a new concept of the bank.

May

Branch opened in Piešťany
A new branch of Poštová banka was opened in Piešťany.

Mortgage loan with an interest rate starting at 1%
Poštová banka offered a mortgage loan with an advantageous interest rate starting at 1% p.a. if fixed for 5 years, without charging a fee for providing this loan.

June

Special offer for teachers
We support the development of financial literacy in schools. We introduced a special offer for teachers with an excellent savings program carrying a bonus of € 50. If they established the Dobré sporenie ISTOTA [Good Saving - CERTAINTY] account and deposited a minimum of € 25 per month during a period of one year, we added a reward of € 50 to their account.

Competition for GOLDEN INTEREST in the Passbook for Children
Five winners received a special interest rate of 5% p.a. from us for a newly-established Passbook for Children.

July

Summer campaign promoting an account
The summer campaign "We Live Only Once" was focused on new clients who could receive as much as € 30 back to their accounts if they met certain conditions.

Competition for payments with mobile telephones with Google Pay
Our media support for the summer campaign included a campaign promoting payments with mobile phones. Clients who paid for their purchases with their mobile phones during the summer received another € 5 to their accounts for every five payments with Google Pay.

Užitočný vklad II [Useful Deposit II]
We prepared the possibility of a combined product for our clients. It was an investment in PPSS funds in combination with the 24M Term Deposit at a ratio of 1:2.

UŽITOČNÝ ÚČET [USEFUL ACCOUNT JUNIOR] for € 0
Our clients up to 26 years of age do not pay any fee for their accounts.

September

The bank begins to strategically support education and financial literacy:

We introduced the InStudy product
The #INSTUDY program consists of two types of products - the Sporenie na vzdelanie [Savings for Education] product with a guaranteed interest rate of up to 3.5% p.a. throughout the entire period of saving and the Pôžička na vzdelanie [Loan for Education] product with an interest rate of 4.5% p.a. and a maturity period of 1-8 years.

New grant program to support financial literacy
Poštová banka announced a new grant program called "Idea for Schools" to support education in the area of financial literacy at high schools and elementary schools.

First Pension Management Company made it among the top 3 management companies
The First Pension Management Company made it among the top three strongest management companies in terms of market share. While other leaders were declining or stagnating, PPSS managed to grow.

Consumer loan campaign in the fall
Fantomas again addresses clients, offering a consumer loan with an advantageous interest rate of 5.5% p.a. with no fee for providing the loan.

October

We invested € 1 million in raising salaries
Poštová banka changed the remuneration of its employees. The monthly salaries of all employees increased by 6.3 per cent on average.

Passbook Without a Notice Period
We re-launched the sale of our traditional product - the Passbook Without a Notice Period, intended primarily for post offices and PFS.

November

Poštová banka added hire purchase to its services
Thanks to the acquisition of the company Amico Finance, Poštová banka immediately became number four in the hire purchase market.

Educational concert for children
Poštová banka supported an educational concert for elementary and high school students, which included learning about Slovak culture and traditions. The concert took place in Banská Bystrica.

We introduced a consumer loan with an interest rate starting at 4.9%
Poštová banka offered its clients a consumer loan with an interest rate starting at 4.9% p.a. with a 100%-discount on the fee for providing the loan.

Free account in return for DEPOSITS
From November, our clients have the opportunity to have their Užitočný vklad product free of charge. It is enough if the average daily balances of their deposit products (VK [passbook], TV [term deposit], NTV [non-term deposit], Sporenie [saving], OU [current account]) exceed € 20,000 in order for the fee for maintaining the account to be scrapped in the following month.

We launched the full version of the first mobile-first bank - 365.bank
365.bank is the first mobile-first bank in Slovakia, primarily targeting young clients.

December

Nomination in the TOP Trend "Insurance Company of the Year" competition
Poštová poisťovňa was nominated among the TOP five best insurance companies in the TOP Trend "Insurance Company of the Year" competition.

Poštová banka became the most appreciated bank in Slovakia
The year 2018 was the most successful and most creative year in terms of communication. We received the largest number of awards in the history of Poštová banka. Our creative work was awarded 11 times in various competitions in 2018.

Outlook for 2019

The year 2019 will be in the spirit of continued modernization of Poštová banka and continued targeting of a young generation of clients. The bank will focus not only on deposit products and retail areas, but also on the Micro segment and related activities. We also have ambitions in hire purchase, which has become another pillar for the bank. 365.bank will aim to increase its number of clients and develop new products.

5. Corporate social responsibility

Corporate Social Responsibility forms an important part of Poštová banka's overall philosophy. Within the framework of Corporate Social Responsibility, we supported several projects, activities, and organizations in 2018. In addition to Corporate Social Responsibility, we also supported several projects serving the public good via our Foundation and implemented several foundation grants to support communities, education, traditional culture, and folklore.

VIn 2018, we continued to support our long-term partnerships with the Naive Theatre of Radošina and the Association of Pensioners in Slovakia. Since 2013, Poštová banka has been the general partner of the iconic Naive Theatre of Radošina, which brought theatre to several regions of Slovakia last year. Poštová banka is a long-standing partner of the Association of Pensioners in Slovakia. This organization brings together more than 1,500 general organizations all over Slovakia and organizes sport, art, and cultural events for its members, but, first and foremost, offers seniors the chance to spend their free time actively.

Last year, the bank also focused on the education of children. We supported the production of the "Cesta za pokladom " [Search for Treasure] television series, where children, together with siblings Mili and Max and their dog, Many, learned how money originated, where it is produced, who guards it in a bank, and how an ATM works. We also continued our series of financial education in kindergartens, where we taught the basics of financial education to the little ones in a playful way through a puppet show.

In 2018, the Poštová banka Foundation continued the trend of carrying out its grant programs, which had proven successful in previous years, being meaningful not only for us but also for the public and resulting in lovely projects carried out all over Slovakia.

Idea for Folklore grant program
Poštová banka is convinced that folklore is a gift for future generations. Therefore, the Poštová banka Foundation decided once again to provide the "Idea for Folklore" grant to support those who are trying to preserve our traditions in every way possible and with affection. The Foundation's grant program is focused on supporting original ideas to revive our traditional folk culture and folklore. The very successful first round, where we received a record number of applications in 2017, reinforced our conviction that this grant has meaning. In 2018, we allocated € 40,000 to the grant and supported as many as 40 high-quality projects.

Idea for 3 Generations grant program
Voluntary work is increasingly becoming the centre of our company's attention. Voluntary activities, mutual cooperation, and the appetite to create something new bring together people of various ages. In 2018, also, the Poštová banka Foundation supported activities that brought together three generations – children, active adults, and seniors, resulting in interesting and meaningful projects to support communities in towns and villages all over Slovakia. Our "Idea for 3 Generations" grant program

has been successful for a long time, which is why we decided to open another round at the end of 2018.

Idea for Schools grant program
Thanks to the "Idea for Schools" grant program, we teach elementary school children how to handle money. The purpose of this project is to make this study more attractive and accessible, but, first and foremost, more usable in their future lives as adults. We want Slovaks to be able to make appropriate decisions on how to handle their money, become financially educated, and live better lives. We are aware that change must come from the ground up, which is why we decided to support schools in making financial literacy part of teaching materials for our children. The "Idea for Schools" grant program will support the best ideas regarding the teaching of financial literacy in schools.

To School with the Poštová banka Foundation
In 2018, the Foundation again carried out an activity consisting of the collection of school supplies for children from socially disadvantaged families. We are very happy that the activity was successful in 2017 and that we could repeat it. The project involved 35 children, for whom Poštová banka employees bought needed school supplies and the Foundation organized their delivery before the school term began. This was a great help for families, as school supplies form a significant part of family budgets when a child begins the school term.

Tree of Fulfilled Wishes
The "Tree of Fulfilled Wishes" activity formed an inseparable part of the Christmas atmosphere at Poštová banka in 2018 as well. Thanks to this activity, 60 children from socially disadvantaged families found their longed-for gifts, which bank employees had bought for them according to their wish lists, under the Christmas tree. This is one of the most popular activities, in which many employees participate. In addition to gifts, the Foundation also gave the participating families a financial contribution for Christmas preparations. With these finances, the families could buy Christmas decorations, foodstuffs for Christmas, and so forth.

Employee grant program "10 Good Deeds"
Thanks to this employee grant, employees of the Poštová banka Group had an opportunity to obtain financial support for projects serving the public good, to which they dedicate their free time as volunteers. In 2018, the Foundation again continued the "10 Good Deeds" grant program, supporting 8 excellent employee projects totalling € 6,700.

Environmental responsibility
We consider the protection of the environment to be very important at Poštová banka and therefore take it seriously. We strive not only to comply with our legal obligations, but also to mitigate the environmental impact of our business. In 2018, we focused our environmental activities mainly on internal activities. The Bank has taken a number of active steps in this direction: setting up printers for duplex printing, using paper with reduced grammage, cancelling paper reports, reducing office waste production, using recycled paper for leaflets, recycling waste at the bank's headquarters, using recycled office supplies as much as possible, etc. However, we are still looking for new ways for the bank to help the environment.

Observance of human rights and the fight against corruption
Poštová banka maintains a principle of zero tolerance for corruption and fraud. All employees are informed about the Bank's attitude to the issue as well as the consequences of non-compliance. In the fight against money laundering and terrorist financing, Poštová banka proceeds in accordance with both Slovak and European legislation and ensures the protection of its clients as well as the bank itself.

Poštová banka and its subsidiaries respect the fundamental principle proclaimed by the Universal Declaration of Human Rights and the United Nations General Principles on Business and Human Rights. The team clearly declares its attitude and principles in relation to employees, clients, suppliers and the community.

In 2018, our Foundation supported several meaningful projects and activities with a view to helping where necessary. Thanks to our supporters, fans, and employees, we managed to carry out all of the aforementioned activities and grants. Thank you for helping together with us.

6. Personnel policy

As of 31 December 2018, the number of employees was 1,344. Poštová banka is an organization with an average employee age of 37, employing all age generations with different needs and expectations. We are aware of and proceed from this fact in our personnel policy.

Our main achievement in the area of personnel policy in 2018 was third place in the Best Employer category. Our activities in many different areas, prepared and carried out throughout the year, are behind this success. In addition to reputation and campaign, 50% of the evaluation consists of stringent criteria for working with candidates and the brand, relationships at work, working conditions, benefits, and so forth. Therefore, this survey reflects the realistic opinions of candidates, employees, and experts on individual companies.

We carried out activities with regard to the values, strategy, and vision of the bank. We continued our intensive work with candidates via personalized management, the speed of communication with candidates, and, last but not least, support for the internal JOBOTE referral system, which continues to be a tool widely used by employees searching for peers.

In connection with the building of the brand, we are actively working with social networking sites and constantly improving not only the speed, but also the quality of our responses to candidates.

In 2018, we continued our transition to a modern and performance-oriented bank. In the HR area, we supported this change by simplifying the employee performance management system at bank headquarters and making it more effective.

From 1 April 2018, we increased the basic salaries of our employees by 1% in accordance with the Collective Bargaining Agreement concluded for the period from 1 January 2017 to 31 December 2019. Based on a decision of the Poštová banka Managing Director and members of the Board of Directors, we raised the basic salaries of employees by € 60 across the board, regardless of their place of work, effective from 1 October 2018. This salary adjustment amounted to an increase by 6.3% per employee on average. At the same time, we changed the system of remuneration of bank employees by transferring part of the variable component of the salary to the basic salary.

In connection with the bank's strategy to change the attitude of Slovaks toward money, we also worked to foster financial literacy. We completed the comprehensive 2-year FINGRA Club project, which was carried out in cooperation with the Faculty of Commerce of the University of Economics in Bratislava. We managed to finalize and have accredited an attractive form of training for vocational school students in how to manage their personal finances. Poštová banka financially supported the preparation of the curriculum and study materials prepared by EU students on the basis of lectures given by Poštová banka in the preceding year. In addition, we launched training courses for high school teachers focused on working with these materials.

Development of employees was one of our key/strategic activities. Within the framework of integration of the postal network, which represented the incorporation of approximately 300 employees into the structure of the bank, we retrained all new employees with regards to the product portfolio of the bank and business skills.

We also launched an extensive program for the development of managers, the Leadership Academy, with 50 participants - members of the company's top management, as one of the forms of building corporate culture. We considered it important to not only identify but also develop talents within the Ahoy program, in addition to working with skilful trainees. They received training in the area of agile project management, process management, and interpersonal skills.

We launched the implementation of a new system for e-learning and the management of requests for educational activities with a view to making e-learning more attractive. Our employees spent **107,217** „man-hours" in total participating in training and development activities, which was twice as much as in the preceding year.

We are aware that we can be attractive as an employer if we also offer a flexible benefits package. Therefore, the year 2018, also, was in the spirit of creating new benefits. The aim of the project was to categorize benefits and allow flexibility in their selection. During the course of 2018, we launched a new application called „Create Your Own Benefits Package," through which we identify employees' preferences and make benefits visible internally. We introduced new benefits supporting work-life balance, the most popular of which included: Festival Day, Time Off for Wedding, Support for Fathers upon Childbirth and „Sabbatical". Employees have an opportunity to use employee benefits via the Cafeteria online system of benefits, where employees placed orders totalling € 250,000.

Out of the total amount of benefits, 47% was utilized in the category „Health". Within this category, employees can find above-standard medical examinations, various forms of preventative health care, health exercises and recuperative treatment. This category thus maintains its primacy in the utilization of benefits.

7. Description of the macroeconomic and competitive environment

The year 2018 brought about favourable economic development to Slovakia. The annual GDP growth was much faster than in 2017 despite the fact that the economy grew more slowly than expected in the last quarter of previous year. The situation in the labour market developed hand-in-hand with the stronger economic growth, as the unemployment rate registered in Slovakia declined to 5.04% and both nominal and real wages grew. Consumer prices in Slovak shops grew as well - at a rate double compared to 2017.

The annual growth in Slovakia's GDP reached 4.1% for the entire year of 2018, accelerating more rapidly than in 2017, when GDP grew by only 3.4%, but it fell short of the National Bank of Slovakia's forecast that estimated a growth of 4.2%. According to a flash estimate of the Statistical Office, however, the Slovak economy slowed down considerably in the last quarter of 2018, growing by 3.6% year-on-year, in contrast to a 4.6%-growth in the third quarter. The Slovak economy was driven by higher household consumption and investment throughout the past year. Growing household consumption was fuelled by a favourable development in the labour market leading to an increase in disposable income. The Slovak economy grew mainly thanks to the automotive industry, whose production was extended to include new models of cars. The end of the year saw reduced demand and a slowdown in the new production of automobiles.

We witnessed an increase in the prices of goods and services in Slovak shops throughout the past year. Consumer prices rose year-on-year by 2.5% on average according to the national consumer price index (CPI) for the entire year of 2018 and by the same amount of 2.5% according to the harmonized consumer price index (HICP). According to the national CPI index, the largest increase in prices, by 4.6%, was recorded in transport. The price increase in the transport sector was, of course, driven by higher oil prices. The second highest increase, by 3.9%, was seen in foodstuffs and non-alcoholic beverages last year. This was mainly due to the development of the prices of agricultural commodities on world markets, the stronger purchasing power of the population, and higher prices of fuel. Inflation was driven upward by higher prices of housing and utilities, which grew by 2.1% on average for the entire year of 2018. Foodstuffs and housing represent the largest cost items of family budgets of Slovak households. Not a single item in the consumer basket became cheaper last year, with only the prices of postal and telecommunications services remaining unchanged year-on-year.

The lines of the unemployed at labour offices became shorter during 2018. The favourable economic development translated into the creation of new jobs and

a decline in unemployment. The registered unemployment rate decreased from 5.88% in January to 5.04% in December, which translated at the end of the year into slightly more than 138,000 unemployed people ready to immediately take up a job. However, the total number of unemployed was more than 170,000.

In the past year, state financial management was better than planned, and the annual deficit of the state budget was lower by as much as 40% than had been planned when the budget was drawn up. The state budget closed the year 2018 with a deficit of € 1.18 billion. The budget deficit decreased slightly, by 3%, year-on-year. State budget expenditures increased by nearly 9%, but income grew more rapidly, by approximately one-tenth.

Not only Slovakia, but also the entire Eurozone, saw growing prices of goods and services in shops during the course of 2018. However, the European Central Bank (ECB) left the prime interest rate unchanged at zero. In connection with the favourable economic development and growing inflation, it decided to gradually reduce the amount of monthly purchases of assets. Effective from January 2018, this amount was reduced to € 30 billion per month from the previous level of € 60 billion. The amount of purchased assets was further reduced to € 15 billion per month from October 2018. The ECB discontinued its program of asset purchases in December 2018. The favourable economic development, GDP growth in the euro currency bloc and an increase in inflation pressure led the central bank to gradually tighten the quantitative easing program. The gap between the ECB's monetary policy and that of the US Federal Reserve System began to widen even more in 2018 because the US central bank gradually increased its interest rate during the past year until it reached a level of 2.25–2.50% in December 2018, whereas the ECB prime interest rate remained zero.

During the course of 2018, the euro gradually weakened against the dollar, fluctuating within a range of approximately EUR 1.12/USD to EUR 1.25/USD. Our currency increased to its highest levels at the beginning of the year, when it also reached its last year's minimum against the dollar in the amount of EUR 1.2510/USD. However, with the summer approaching, our currency gradually began to depreciate and the downward trend continued throughout the rest of the year. It reached its last year's minimum of EUR 1.218/USD in November. The gradual depreciation of the European currency against its US counterpart during the course of 2018 resulted from divergent monetary policies of the central banks, with the ECB keeping its interest rate at zero, whereas the US Federal Reserve System decided to increase its interest rate. The risk of a trade war, which escalated between the United States and China, also did not benefit the European currency. Other significant risks to our currency primarily included a slowdown in global economic growth, which also affected the countries of the Eurozone. The German economy, which is the largest in the monetary union, began to pay the price for an economic slowdown in China and its demand for cars at the end of last year. Another significant threat to the EU's economic growth was the continued uncertainty concerning Brexit and the conditions under which Great Britain and the EU would „divorce".

As of 31 December 2018, a total of 12 banks with their registered offices in the territory of the Slovak Republic (including two banks without foreign capital participation and 10 banks with foreign capital participation), 15 branches of foreign banks, and one central bank were in operation in the Slovak banking sector. This means that at the end of 2018, the total number of banks increased compared to 2017 as a result of an increase in the number of branches of foreign banks by one. Over the course of the same year, the number of branches and lower organizational units in the banking sector dropped by 59 to 1,174. By the end of 2018, a total of 20,649 employees worked in the Slovak banking sector, which was 3.4% more than at the end of 2017. According to preliminary results, total assets in the banking sector amounted to € 80 billion last year. Deposits from citizens presented at the end of 2018 amounted

to € 35.2 billion, growing by 6.5% year-on-year. Compared to 2017, loans to citizens increased by 11.7% to € 35.3 billion. According to preliminary data, the banking sector generated a net profit of more than € 640 million.

At the beginning of 2017, the EUR/CZK currency pair was trading at above 27 Czech korunas per euro, but the Czech koruna started the year much stronger, at a level of CZK 25.53 per euro. This is because the official commitment of the Czech National Bank (ČNB) to intervene against the Czech koruna, where the koruna was kept at a desired level, was terminated at the end of March 2017. After the termination of the intervention regime, the ČNB resumed its standard monetary policy based on using interest rates as the main instruments. Throughout the past year, the Czech koruna traded against the euro roughly within a band of EUR/CZK 25.20 to EUR/CZK 26.10, ending at a level of EUR/CZK 25.72 at the end of the year. As early as 2017, the Czech National Bank began to tighten its monetary policy and increase the prime interest rate. It raised the interest rate twice in 2017 and five times in 2018, sending the prime interest rate to a level of 1.75%. The most recent increase was made at its session in November of last year.

8. Report on business activity and financial position

In 2018, the bank generated a profit after tax in the amount of € 50.4 million, which represents an increase of 5.2% compared to 2017.

The increase in profit was primarily driven by net interest income, which grew from € 159.8 million to € 167 million year-on-year. Net fee and commission income grew as well, namely from € 22.1 million in 2017 to € 27.7 million in 2018, with a lower net creation of impairment losses and provisions also having a positive impact, as the bank is managing to improve the quality of its portfolio.

The bank's profit grew despite an increase in personnel expenses resulting from a change in the business model with the Slovak Post, with the latter's employees becoming employees of Poštová banka within the framework of the "Bank at the Post Office" concept from the beginning of 2018. The bank also integrated employees of its subsidiary, PB Partner, into its employee structures.

The balance sheet amount of the bank remained without any significant changes, reaching € 4,268 million as of 31 December 2018.

A year-on-year decrease was recorded in the Tier I capital adequacy ratio, as a percentage of risk-weighted assets, which decreased from 17.36% to 16.98% due primarily to higher capital requirements resulting from an increase in loans and advances to customers. Despite the slight decline, the bank exceeded the minimum capital requirement considerably.

Assets

Loans and advances to customers increased by 13.2% compared to 2017, reaching a value of € 2,469 million, including impairment losses, as of 31 December 2018. Loans and advances to customers formed the largest part of assets, accounting for 57.8% of the bank's total assets.

The main reason for the growth in 2018 was also higher retail loans, thus confirming the bank's repositioning toward retail clients. This growth was primarily driven by housing loans, which the bank resumed during the course of 2017, and as of 31 December 2018, the amount of housing loans reached € 294 million after taking into consideration impairment losses. The bank also managed to increase the amount of consumer loans, whose net value reached € 780 million as of 31 December 2018.

As of 31 December 2018, **loans and advances to financial institutions, including balances at central and other banks**, reached € 452 million, representing 10.6% of the total bank assets. The most significant item in the amount of € 260 million was represented by balances at central banks of € 166 million in the form of short-term deposits and reverse repo transactions in the ČNB and the remainder consisting of the balances of accounts and term deposits in other financial institutions.

As of 31 December 2018, the bank held in its portfolio securities totalling € 1,149 million, representing 26.9% of total assets.

From the total volume of securities, government bonds amounted to € 612 million, including Slovak government bonds held by the bank in the amount of € 297 million, while the remainder is represented by government bonds of European Union member states. Mortgage bonds issued by Slovak banks amounted to € 70 million.

Liabilities and equity

As of 31 December 2018, **primary resources** (client deposits) reached € 3,483 million, accounting for 81.6% of the total balance sheet amount, showing a slight decrease year-on-year. Current accounts balance formed the largest part of primary resources, amounting to € 1,462 million. Current account balance grew by € 85 million year-on-year.

Secondary resources (financial liabilities towards credit institutions) amounted to € 112 million as of 31 December 2018.

Equity decreased by € 9 million compared to the previous year, amounting to € 634 million as of 31 December 2018.

Profit distribution proposal

The Board of Directors of the Bank has proposed the following profit distribution for the current accounting period:

€ thousands	
Profit after Tax	**50 394**
Dividends	35 276
Retained earnings	10 079
Reserve fund	5 039

Selected indicators

The development of selected qualitative indicators is summarized in the table below:

Indicator	31 Dec 2018	31 Dec 2017
Increase in loans and advances to customers	13,2 %	8,2 %
Loans and advances to customers / Assets	57,8 %	50,6 %
Primary resources / Assets	81,6 %	83,6 %
ROA	1,2 %	1,1 %
ROE	8,0 %	7,5 %

Central banks: NBS – National Bank of Slovakia, ČNB - Czech National Bank

ROA – Return on assets (year-end balance) calculated as Profit after tax/Assets

ROE – Return on equity (year-end balance) calculated as Profit after tax/Equity

2018

poštová banka

Poštová banka, a. s.

Separate financial statements

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

(English Translation)

Year ended 31 December 2018

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Independent auditors' report

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Management Board of Poštová banka, a.s.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Poštová banka, a.s. ("the Bank"), which comprise the separate statement of financial position as at 31 December 2018, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2018: € 2,468,821 thousand; impairment loss recognised in 2018: € 35,663 thousand; total impairment loss as at 31 December 2018: € 197,310 thousand.

Refer to Note 3 (Significant accounting policies), Note 9 (Financial assets at amortised cost: Loans and advances) and Note 29 (Impairment losses and provisions: Financial assets at amortised cost - Loans and advances) to the separate financial statements.

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses within Financial assets at amortized cost at the reporting date. We focused on this area as the determination of impairment allowances requires significant judgment from the Management Board over both the timing of	Our audit procedures in this area included, among others: • Inspecting the Bank's new ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the new standard. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is

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recognition and the amount of any such impairment.

Additionally, as from 1 January 2018, the Bank has been applying the new financial instruments standard, IFRS 9 *Financial Instruments*, whose impairment requirements are based on the expected credit loss (ECL) model rather than the incurred loss model, as previously used.

Following the initial application of IFRS 9, impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and non-performing exposures (Stage 3) below € 300 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality and management judgment are incorporated into the model assumptions.

For exposures exceeding € 300 thousand, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis.

For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required increased attention. Accordingly, we considered the area to be a key audit matter.

appropriate based on an assessment of the entity-level and portfolio-level factors;

- Making relevant inquiries of the Bank's risk management and internal audit and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for data security and access, assisted by our own IT specialists;

- Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances;

- With respect to impairment accounting under the new standard:

  - Understanding the overall transition process activities and controls, including the process and controls over determining the impact as well as the underlying process activities that generated the related disclosures;

  - Assessing whether the definition of default and the new standard's staging criteria were consistently applied. Also assessing whether the definition of default applied for each segment/portfolio is appropriate based on the requirements of the new standard (e.g. taking into account the 90-day presumption);

  - Challenging LGD and PD parameters used by the Bank, by reference to historically realized losses on defaults and evaluating the overall modelling approach, of calculation of ECLs

  - Obtaining the relevant macroeconomic forecasts of the Bank and critically assessing the Bank's assessment of the forward-looking information use in the ECL calculation. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information;

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Key audit matter	Our response
	– Performing a comparison of the ECL-based impairment allowances as at the new standard's initial application date, to those calculated at that same date in accordance with the previous standard, and assessing their reasonableness based on inquiries of the credit risk management personnel. • Selecting a sample of individual exposures selected using statistical sampling, as well as with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics; • For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2018; • For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation and collateral values.

Measurement of securities held at fair value

The carrying amount of securities held at fair value as at 31 December 2018: € 735,183 thousand; change in fair value recognized in profit or loss for the year ended 31 December 2018: € 2,728 thousand; negative change in fair value recognized in other comprehensive income for the year ended 31 December 2018: € (2,261) thousand.

Refer to Note 3 (Significant accounting policies), Note 7 (Non-trading financial assets mandatorily at fair value through profit or loss), Note 8 (Financial assets at fair value through other comprehensive income) and Note 25 (Net gains/(losses) from financial transactions) to the separate financial statements.

Key audit matter	Our response
Securities held at fair value include primarily debt and equity securities within the portfolios Non-trading financial assets mandatorily at fair value through profit or loss and Financial assets at fair value through other comprehensive income. For the majority of the securities held, their respective fair values are based on quoted prices of identical instruments, while valuation techniques using market observable and unobservable inputs were applied for the remaining bonds and shares, and for investments in funds. There is as well a risk that the underlying markets for the instruments are not sufficiently active or that the transaction prices do not represent the fair value of the financial instruments at the measurement date.	Our audit procedures included, among others: Assessing the design, implementation and operating effectiveness of selected key controls over the identification and measurement of financial instruments and management's oversight over the valuation process; Independently assessing the financial instruments' fair value hierarchy levels, considering underlying market activity, including volume traded and number of executable quotes, and assessment of bid-ask spread of those quotes, and comparing these levels to the hierarchy levels assigned by the Bank;

Due to the magnitude of the amounts involved, as well as the complexity involved and judgment required in measuring certain of these instruments, their valuation was a key area of focus during our audit.	Testing the Bank's market-based valuations of financial instruments by comparing these amounts to independently sourced publicly available quoted prices; For more judgmental valuations, based on inputs other than quoted prices, evaluating the assumptions, methodologies and models used by the Bank, considering the requirements of the relevant financial reporting standards, and also, for on a sample basis, performing an independent valuation, assisted by our own valuation specialists; and Evaluating the overall reasonableness of the Bank's valuations by examining gains and losses on disposals and other events and transactions which could provide evidence about the appropriateness of the valuations.

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

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

In preparing the separate financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Separate Annual Report

The Management Board is responsible for the information in the separate annual report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the separate financial statements does not cover other information in the annual report.

In connection with our audit of the separate financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the audited separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The annual report was not available to us as of the date of this auditors' report.

When we obtain the annual report of the Bank, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the separate financial statements, we will express an opinion as to whether:

- the information given in the annual report for the year 2018 is consistent with the separate financial statements prepared for the same financial year; and

- the annual report contains information according to the Act on Accounting.

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

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

Appointment and approval of an auditor

We have been appointed as statutory auditor by the Management Board of the Bank on 27 September 2018 on the basis of approval by the General Meeting of the Bank on 20 June 2017. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is sixteen years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

13 March 2019
Bratislava, Slovak Republic

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

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

A. Separate statement of financial position As at 31 December 2018

	Notes	31. 12. 2018	31. 12. 2017 restated*
Assets			
Cash, cash balances at central banks and other demand deposits	5	302 390	63 611
Financial assets held for trading	6	1 799	1 183
Non-trading financial assets mandatorily at fair value through profit or loss	7	234 665	-
Financial assets at fair value through other comprehensive income	8	500 518	783 272
Financial assets at amortised cost	9	3 105 527	3 353 744
Debt securities	9	413 507	390 946
Loans and advances	9	2 641 769	2 902 786
thereof: Loans and advances to financial institutions	9	172 948	721 659
thereof: Loans and advances to customers	9	2 468 821	2 181 127
Other financial assets	9	50 251	60 012
Fair value changes of the hedged items in portfolio hedge of interest rate risk		869	-
Investments in subsidiaries, joint ventures and associates	11	47 637	41 812
Tangible assets	12	9 614	9 741
Intangible assets	13	27 252	23 886
Current tax assets		462	3 104
Deferred tax assets	14	17 409	11 693
Other assets	15	19 888	18 751
TOTAL ASSETS		**4 268 030**	**4 310 797**

	Notes	31. 12. 2018	31. 12. 2017 restated*
Záväzky			
Financial liabilities held for trading	6	469	5 846
Financial liabilities at amortised cost	16	3 609 647	3 641 227
Deposits	16	3 595 201	3 617 352
Other financial liabilities	16	14 446	23 875
Derivatives – Hedge accounting	10	5 607	3 738
Provisions	17	4 071	1 186
Current tax liabilities		2 775	752
Other liabilities	18	11 627	15 314
Total liabilities		**3 634 196**	**3 668 063**
Total equity	**19**	**633 834**	**642 734**
TOTAL EQUITY AND LIABILITIES		**4 268 030**	**4 310 797**

* the bank reclassified comparatives, restatement is specified in note 3.1

These separate financial statements, which include the notes on pages 53 - 135, were approved by the Board of Directors on 13 March 2019.

Chairman of the Board of Directors
Andrej Zaťko

Member of the Board of Directors
Zuzana Žemlová

B. Separate statement of profit or loss and other comprehensive income Year ended 31 December 2018

Statement of profit or loss	Notes	2018	"2017 restated*"
Net interest income	22	167 015	159 792
Net fee and commission income	23	27 699	22 080
Dividend income	24	10 085	10 505
Net gains/(losses) from financial transactions	25	277	13 150
Net other operating expenses	26	(5 433)	(7 165)
Administrative expenses	27	(88 043)	(81 283)
Depreciation	28	(9 795)	(7 818)
Operating profit before impairment losses and provisions		**101 805**	**109 261**
Release/(creation) of provisions	29	2 049	269
Impairment losses for financial assets not valued at fair value through profit and loss	29	(36 537)	(43 435)
Impairment losses for investments in subsidiaries, joint ventures and associates	29	(1 697)	(2 553)
Net impairment on non-financial assets	29	75	545
Profit before tax		**65 695**	**64 087**
Income tax	30	(15 301)	(16 200)
Profit after tax		**50 394**	**47 887**

Statement of other comprehensive income	2018	"2017 restated*"
Items that may be reclassified to profit or loss	(932)	2 531
Revaluation of securities at fair value through other comprehensive income	(2 504)	1 260
Impairment losses for financial assets valued at fair value through other comprehensive income	136	-
Revaluation of hedging instruments	1 469	1 132
Deferred tax related to items that may be reclassified to profit or loss	3	(501)
Foreign currency translation	(36)	640
Items that may not be reclassified to profit or loss	199	-
Revaluation of securities at fair value through other comprehensive income	243	-
Deferred tax related to items that may not be reclassified to profit or loss	(44)	-
Total other comprehensive income	**(733)**	**2 531**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**49 661**	**50 418**

Earnings per share		
Profit after tax	50 394	47 887
Number of issued shares	330 899	330 899
Earnings per share (in EUR)	**152,29**	**144,72**

* the bank reclassified comparatives, restatement is specified in note 3.1

The notes on pages 53 - 135 are an integral part of these separate financial statements.

C. Separate statement of changes in equity Year ended 31 December 2018

€ '000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2018	366 305	738	45 159	12 618	27	217 887	607 092
Changes on initial application of IFRS 9	–	–	–	(3 954)	–	(28 982)	(32 936)
Excpected credit losses	–	–	–	848	–	(33 784)	(32 936)
Reclasification	–	–	–	(4 802)	–	4 802	–
Restated opening balance as of 1 January 2018	366 305	738	45 159	8 664	27	188 905	609 798
Total comprehensive income	–	–	–	(697)	(36)	50 394	49 661
Profit after tax	–	–	–	–	–	50 394	50 394
Items that may be reclassified to profit or loss	–	–	–	(896)	(36)	–	(932)
Items that may not be reclassified to profit or loss	–	–	–	199	–	–	199
Other transactions	–	–	4 790	–	–	(30 415)	(25 625)
Transfer to legal reserve fund	–	–	4 790	–	–	(4 790)	–
Dividends	–	–	–	–	–	(23 943)	(23 943)
Acquisition of part of business	–	–	–	–	–	(1 682)	–
Closing balance as of 31 December 2018	366 305	738	49 949	7 967	(9)	208 884	633 834

€ '000	Share capital	Share premium	Legal reserve fund	Revaluation of FVOCI financial assets	Foreign currency translation	Retained earnings	TOTAL EQUITY
Opening balance as of 1 January 2017	366 305	738	40 234	10 727	(613)	189 701	607 092
Total comprehensive income	–	–	–	1 891	640	47 887	50 418
Profit after tax	–	–	–	–	–	47 887	47 887
Items that may be reclassified to profit or loss	–	–	–	1 891	640	–	2 531
Items that may not be reclassified to profit or loss	–	–	–	–	–	–	–
Other transactions	–	–	4 925	–	–	(19 701)	(14 776)
Transfer to legal reserve fund	–	–	4 925	–	–	(4 925)	–
Dividends	–	–	–	–	–	(14 776)	(14 776)
Closing balance as of 31 December 2017	366 305	738	45 159	12 618	27	217 887	642 734

The notes on pages 53 - 135 are an integral part of these separate financial statements.

D. Separate statement of cash-flows Year ended 31 December 2017

€ '000	31.12.2018	31.12.2017 restated
Profit before tax	**65 695**	**64 087**
Adjustments:		
Net interest income	(167 015)	(159 792)
Dividend income	(10 085)	(10 505)
Depreciation	9 795	7 818
Release/(creation) of provisions	(2 049)	(269)
Gains/(losses) on derecognition of non-financial assets, net	4	492
Impairment losses for financial assets not valued at fair value through profit and loss	36 537	43 435
Impairment losses for investments in subsidiaries, joint ventures and associates	1 697	2 553
Net impairment on non-financial assets	(75)	(545)
Cash flows from/(used in) operating activities before changes in working capital	**(65 496)**	**(52 726)**

€ '000	31.12.2018	31.12.2017 restated
(Increase)/decrease in operating assets:		
Cash balances at central banks	(239 170)	338 182
Financial assets held for trading	(616)	(471)
Non-trading financial assets mandatorily at fair value through profit or loss	(55 385)	–
Financial assets at fair value through other comprehensive income	95 623	35 598
Financial assets at amortised cost	201 480	(627 921)
Loans and advances	191 719	(626 079)
Other financial assets	9 761	(1 842)
Other assets	(1 136)	385
Increase/(decrease) in operating liabilities:		
Financial liabilities held for trading	(5 377)	5 569
Financial liabilities measured at amortised cost	(15 207)	34 649
Deposits	(5 778)	12 984
Other financial liabilities	(9 429)	21 665
Derivatives – Hedge accounting	1 869	(1 325)
Other liabilities	(3 687)	(12 436)
Cash flows from operating activities before interest and income tax	**(87 102)**	**(280 496)**
Interest received	167 731	171 429
Interest paid	(24 688)	(17 953)
Income tax paid	(11 414)	(20 530)
Net cash flows from/(used in) operating activities	**44 527**	**(147 550)**

The notes on pages 53 - 135 are an integral part of these separate financial statements.

	31. 12. 2018 tis. eur	31. 12. 2017 tis. eur po úprave
Cash flows from investing activities		
Financial assets at amortised cost - debt securities		
Purchase	(51 080)	(94 616)
Proceeds from sale and maturity	26 958	256 696
Interest received	16 721	20 246
Investments in subsidiaries, joint ventures and associates		
Purchase	(7 760)	(2 826)
Dividends received	10 078	8 497
Tangible and intangible assets		
Purchase	(13 291)	(14 633)
Proceeds from sale	19	930
Loss on acquisition of part of the business, before deferred tax	(2 129)	–
Net cash flows from/(used in) investing activities	–	3 345
Net cash flows from/(used in) investing activities	**(20 484)**	**174 294**
Cash flows from financing activities		
Dividends paid	(23 937)	(14 772)
Financial liabilities at amortised cost - subordinated debt		
Interest paid	(427)	(427)
Net cash flows from/(used in) financing activities	**(24 364)**	**(15 199)**
Net increase/(decrease) in cash and cash equivalents	**(321)**	**11 545**
Cash and cash equivalents at the beginning of the period	**42 659**	**31 114**
Cash and cash equivalents at the end of the period	**42 338**	**42 659**

The notes on pages 53 - 135 are an integral part of these separate financial statements.

E. Notes to the separate financial statements

1. General information

Poštová banka, a. s. ('the Bank') was incorporated in the Commercial Register on 31 December 1992 and commenced activities on 1 January 1993. The registered office of the Bank is Dvořákovo nábrežie 4, 811 02 Bratislava. The Bank's identification ('IČO') is 31340890, tax ('DIČ') is 2020294221 and value added tax ('IČ DPH') numbers is SK7020000680. The Bank is registered as VAT member of Poštová banka Group.

The principal activities of the Bank are as follows:

- Accepting and providing deposits in euro and in foreign currencies;
- Providing loans and guarantees in euro and foreign currencies;
- Providing banking services to the public;
- Providing services on the capital market.

The Bank operates in the Slovak Republic through a network of branches and under a contract with Slovenská Pošta, a.s. The Bank sells its products and services through post offices and financial services compartments located throughout the Slovak Republic.

The Bank extended its activities to the Czech Republic with the establishment of a branch operation in Prague. Poštová banka, a. s. pobočka Česká republika ('the Branch') was registered in the Commercial Register of the Czech Republic on 18 November 2009. The Branch commenced its activities on 1 March 2010.

On June 6, 2017, 365.bank was incorporated in the Commercial Register of the Slovak Republic.

Štruktúra akcionárov banky je nasledovná:

		31 December 2018		31 December 2017	
Name of shareholder	Address	Number of shares	Owner-ship in %	Number of shares	Owner-ship in %
J&T FINANCE GROUP SE	Pobřežní 297/14, 186 00 Prague, Czech republic	213 288	64,45	213 288	64,45
PBI, a.s. (subsidiary of J&T FINANCE GROUP SE)	Sokolovská 394/17, 186 00 Prague, Czech republic	112 506	34,00	112 506	34,00
Slovenská pošta, a. s.	Partizánska cesta 9, 975 99 Banská Bystrica, Slovak republic	4 918	1,49	4 918	1,49
Ministerstvo dopravy, výstavbya regionálneho rozvoja SR	Námestie slobody 6, 810 05 Bratislava, Slovak republic	100	0,03	100	0,03
UNIQA Versicherungen AG	Untere Donaustrasse 21, 1029 Vienna, Austria	87	0,03	87	0,03
Total		330 899	100,00	330 899	100,00

Members of the Board of Directors and Supervisory Board

Andrej Zaťko	Chairman
Peter Hajko	Board member
Zuzana Žemlová	Board member

Members of the Supervisory Board

Mario Hoffmann	Chairman until 4 May 2018
Vladimír Ohlídal	Board member
Jozef Tkáč	Chairman
Jozef Kiss	Board member until 17 November 2018
Jan Kotek	Board member since 4 May 2018

The separate financial statements of the Bank for the year ended 31 December 2017 were approved by the Board of Directors on 14 March 2018.

The Bank's financial statements are included in the consolidated financial statements of J&T FINANCE GROUP SE, Pobřežní 297/14, 186 00 Prague, Czech Republic. The consolidated financial statements are available at the registered office of J&T FINANCE GROUP SE.

2. Basis of preparation of the separate financial statements

(a) Statement of compliance

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

These financial statements are prepared as separate financial statements under Section 17 of the Slovak Act on Accounting 431/2002, as amended. Consequently, in these financial statements, the Bank's investments in subsidiaries are accounted for at cost decreased by impairment losses, if any.

(b) Basis of preparation of the financial statements

These separate financial statements have been prepared on the historical cost basis except for the following financial assets and liabilities which are measured at fair value:

- Financial assets and liabilities held for trading;
- Non-trading financial assets mandatorily at fair value through profit or loss ('FVPL');
- Financial assets and liabilities designated at FVPL;
- Financial assets at fair value through other comprehensive income ('FVOCI');
- Hedging derivatives.

(c) Going concern assumption

The financial statements were prepared using the going concern assumption that the Bank will continue in operation for the foreseeable future.

(d) Functional and presentation currency

These financial statements are presented in euro (EUR), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand. The tables in these financial statements may contain rounding differences.

(e) Subsidiaries, joint ventures and associates

As at 31 December 2018 the Bank held share in the following subsidiaries, joint ventures and associates:

Subsidiaries	Activity	Ownership in %
Prvá penzijná správcovská spoločnosť Poštovej banky, správ. spol., a. s.	Asset management	100
Poštová poisťovňa, a.s.	Insurance	80
Dôchodková správcovská spoločnosť Poštovej banky, d. s. s., a. s.	Management of pension funds	100
Amico Finance, a.s.	Consumer loans	95
PB Servis, a. s.	Real estate administration	100
PB Finančné služby, a.s	Financial and operational leasing and factoring	100
PB PARTNER, a.s.	Financial intermediary	100
365.fintech, a.s.	Investment fund	
365.world, o.p.f.	Investment services	
NADÁCIA POŠTOVEJ BANKY	Charitable foundation	100

Joint ventures	Activity	Ownership in %
SPPS, a.s.	Payment services	40

Associates	Activity	Ownership in %
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	Art and sales	37,13

The Bank also prepares consolidated financial statements for the Poštová banka Group. NADÁCIA POŠTOVEJ BANKY is not included in the consolidated financial statements of the Bank.

3. Significant accounting policies

3.1 Changes in significant accounting policies

The Bank has adopted IFRS 9 as issued by the IASB in July 2014. The Bank has not early adopted any part of IFRS 9 in previous years.

The adoption of IFRS 9 has resulted in changes in Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures which required adjustments to the financial instruments disclosures however this amendment was not applied for comparative information.

The Bank has decided not to recalculate the comparative information as allowed by the transitional provisions of IFRS 9. The Bank regrouped the previous year's items by line item names in order to use consistent line item names in the current and prior periods. Any adjustments to the carrying amount of financial assets and liabilities at the date of initial application were reported in the opening balance of retained earnings of the current period.

IFRS 9 adoption impact is stated below.

On 1 January 2018, the Bank applied IFRS 15 Revenue from contracts with customers that did not have a significant impact on the Bank.

(a) Reconciliation of comparative information

In order to enable comparability of the current and previous period, the Bank reclassified prior year items in the new structure of the financial statements changed due to implementation of IFRS 9 and harmonization with FINREP reporting. Under this reclassification, all items kept their measurement basis under accounting standards and book values as of 31 December 2017. The following table summarizes reclassification of balances as of 31 December 2017 into the new structure (values reported in EUR thousands).

IAS 39 presentation		Other demand deposits	Other cash	Cash balances at cent. banks	Debt securities	Loans and advances	Other financial assets	IFRS 9 presentation	
Assets								**Assets**	
Cash and balances at the central banks	760 008	17 545	(30 106)	(683 836)	–	–	–	Cash, cash balances at central banks and other demand deposits	63 611
Financial assets held for trading	1 183	–	–	–	–	–	–	Financial assets held for trading	1 183
		–	–	–	–	–	–	Non-trading financial assets mandatorily at fair value through profit or loss	-
Financial assets available for sale	783 272	–	–	–	–	–	–	Financial assets at fair value through other comprehensive income	783 272
Financial assets held to maturity	281 410	–	–	–	(281 410)	–	–		
		–	–	–	–	–	–	Financial assets at amortised cost	3 353 744
		–	–	–	390 946	–	–	Debt securities	390 946
		–	–	–	–	–	–	Loans and advances	2 902 786
		–	–	683 836	–	37 823	–	thereof: Loans and advances to financial institutions	721 659
		–	–	–	–	2 181 127	–	thereof: Loans and advances to customers	2 181 127
		–	30 106	–	–	–	29 906	Other financial assets	60 012

IAS 39 presentation		Other demand deposits	Other cash	Cash balances at cent. banks	Debt se-curities	Loans and advances	Other financial assets	IFRS 9 presentation	
Loans and advances	2 346 031	–	–	–	–	–	–	–	–
Loans and advances to financial institutions	55 368	(17 545)	–	–	–	(37 823)	–	–	–
Loans and advances to customers	2 181 127	–	–	–	–	(2 181 127)	–	–	–
Debt securities	109 536	–	–	–	(109 536)	–	–	–	–
Investments in subsid-iaries, jointly controlled entities and associates	41 812	–	–	–	–	–	–	Investments in subsid-iaries, joint ventures and associates	41 812
Tangible assets	9 741	–	–	–	–	–	–	Tangible assets	9 741
Intangible assets	23 886	–	–	–	–	–	–	Intangible assets	23 886
Tax receivable	3 104	–	–	–	–	–	–	Current tax assets	3 104
Deferred tax asset	11 693	–	–	–	–	–	–	Deferred tax assets	11 693
Other assets	48 657	–	–	–	–	–	(29 906)	Other assets	18 751
TOTAL ASSETS	**4 310 797**	–	–	–	–	–	–	**TOTAL ASSETS**	**4 310 797**

- Deposits of financial institutions repayable on demand are presented as part of the Cash, cash balances at central banks and other demand deposits;
- Other cash has been transferred to Other financial assets (measured at amortised cost);
- Deposits in central banks, excluding accounts, are presented as Loans and advances (measured at amortised cost);
- Debt securities from the HTM and L & R portfolio are presented together as part of the Debt securities (measured at amortised cost);
- Other financial assets measured at amortized cost, due to their nature, cannot be classified as debt securities or loans and advances at amortised cost, were transferred to Other financial assets (measured at amortized cost).

IAS 39 presentation		Deposits	Other financial liabilities	IFRS 9 presentation	
Liabilities				**Liabilities**	
Financial liabilities held for trading	5 846	-	-	Financial liabilities held for trading	5 846
		-	-	Financial liabilities at amortised cost	3 641 227
		3 617 352	-	Deposits	3 617 352
		-	23 875	Other financial liabilities	23 875
Financial liabilities at amortized cost	3 617 352	-	-		
Financial liabilities to financial institutions	5 573	(5 573)	-		
Customer accounts	3 603 766	(3 603 766)	-		
Subordinated debt	8 013	(8 013)	-		
Hedging derivatives	3 738	-	-	Derivatives – Hedge accounting	3 738
Provisions	1 186	-	-	Provisions	1 186
Current tax liabilities	752	-	-	Current tax liabilities	752
Other liabilities	39 189	-	(23 875)	Other liabilities	15 314
Total liabilities	3 668 063	-	-	Total liabilities	3 668 063
Total equity	642 734			Total equity	642 734
TOTAL EQUITY AND LIABILITIES	**4 310 797**	-	-	**TOTAL EQUITY AND LIABILITIES**	**4 310 797**

- Items from Financial liabilities at amortised cost were transferred to Deposits as part of financial liabilities at amortised cost.
- Other liabilities measured at amortised cost that meet the definition of financial liabilities were transferred to Other financial liabilities (at amortised cost).

IAS 39 presentation		Financial assets	IFRS 9 presentation	
Net interest income	159 792	-	Net interest income	159 792
Net fee and commission income	22 080	-	Net fee and commission income	22 080
Dividend income	10 505	-	Dividend income	10 505
Net trading income	13 150	-	Net gains/(losses) from financial transactions	13 150
Net other operating expenses	(7 165)	-	Net other operating expenses	(7 165)
Administrative expenses	(81 283)	-	Administrative expenses	(81 283)
Depreciation and amortization	(7 818)	-	Depreciation	(7 818)
Operating profit before impairment losses and provisions	**109 261**	-	**Operating profit before impairment losses and provisions**	**109 261**
Release of provisions		-	Release/(creation) of provisions	269
Impairment loss for non-financial assets		(294)	Net impairment on non-financial assets	545
Impairment loss for financial assets not valued at fair value through profit or loss		294	Impairment losses for financial assets not valued at fair value through profit and loss	(43 435)
Impairment loss for investments in subsidiaries, jointly controlled entity and associate		-	Impairment losses for financial assets not valued at fair value through profit and loss	(2 553)
Profit before tax		-	**Profit before tax**	**64 087**
Income tax		-	Income tax	(16 200)
Profit after tax		-	**Profit after tax**	**47 887**

(b) Reconciliation of classification and measurement of financial instruments in accordance with IAS 39 and IFRS 9

The following table summarizes reconciled carrying amount of financial assets classified under IAS 39 and carrying amount of financial instruments under IFRS 9 at the date of initial application.

€ '000	31. 12. 2017	Transfer	Revaluation	1. 1. 2018	Impact on equity - OCI	Impact on equity - RE
Non-trading financial assets mandatorily at fair value through profit or loss						
Closing balance under IAS 39	-	-	-	-	-	-
Transfer from: AFS	-	176 093	-	-	-	4 802
Opening balance under IFRS 9	-	-	-	**176 093**	-	-
Financial assets at fair value through other comprehensive income						
Closing balance under IAS 39		-	-	-	-	-
Transfer from: Non-trading financial assets mandatorily at fair value through profit or loss		(176 093)	-	-	(4 802)	-
thereof: Revaluation reserve		-	-	-	(6 079)	-
thereof: Deferred tax		-	-	-	1 277	-
Revaluation: ECL (to equity)		-	-	-	848	(848)
Opening balance under IFRS 9		-	-	**607 179**	-	-
Financial assets at amortised cost						
Closing balance under IAS 39	**2 902 786**	-	-	-	-	-
Revaluation: ECL	-	-	(32 533)	-	-	(32 533)
Opening balance under IFRS 9	-	-	-	**2 870 253**	-	-
Deferred tax asset						
Closing balance under IAS 39	**11 693**	-	-	-	-	-
Revaluation: ECL	-	-	4 532	-	-	4 532
Opening balance	-	-	-	**16 225**	-	-
Provisions						
Closing balance under IAS 39	**1 186**	-	-	-	-	-
Revaluation: ECL	-	-	4 935	-	-	(4 935)
Opening balance under IFRS 9	-	-	-	**6 121**	-	-
Total impact on equity					**(8 756)**	**(28 982)**

The Bank held a portfolio of share certificates classified in the category Available for sale under IAS 39. The Bank concluded that share certificates held in the Bank's portfolio meet the definition of puttable instruments. According to IFRS 9, puttable instruments do not meet the definition of an equity instrument and therefore the entities cannot make an irrevocable election to present the changes in fair value of such instruments in other comprehensive income. Due to cash flow characteristics of the assets, share certificates failed to meet the solely payments of principal and interest ('SPPI') requirement. As a result, these instruments were re-classified from Available for sale to Non-trading financial assets mandatorily at fair value through profit or loss from the date of initial application.

Except of financial assets described above, the following debt instruments have been reclassified into new categories under IFRS 9, as their previous categories under IAS 39 are no more applicable, with no changes to their measurement basis:

- Those previously classified as Available for sale and now classified as Financial assets at fair value through other comprehensive income;
- Those previously classified as Held to maturity and now classified as Financial assets at amortised cost.

Classification and measurement of other financial liabilities under IFRS 9 remained unchanged compared to IAS 39.

(c) Reconciliation of impairment allowance and off-balance sheet provisions balance

The table below reconciles the prior period´s closing impairment allowances and provisions measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

€ '000	IAS 39 / IAS 37	Transfer to FVPL	Revaluation	IFRS 9
Opravné položky	**(174 239)**	**4 878**	**(32 533)**	**(201 894)**
Impairment allowances	-	-	(16)	(16)
Cash, cash balances at central banks and other demand deposits	(4 878)	4 878	-	-
Financial assets at fair value through other comprehensive income	(169 361)	-	(32 517)	(201 878)
Financial assets at amortised cost	-	-	(1 328)	(1 328)
Debt securities	(169 361)	-	(31 189)	(200 550)
Loans and advances	**1 186**	**-**	**4 935**	**6 121**
Provisions				

The total re-measurement of impairment allowances and provisions was recognised in opening balance of retained earnings as at 1 January 2018.

3.2 Significant accounting policies

These separate financial statements do not include segment reporting as that the Bank does not fulfil the criteria under IFRS 8 – Operating segments for reporting of detailed segment reporting.

(a) Foreign currency

I. Foreign currency transactions
Transactions denominated in foreign currencies are translated into euro at the exchange rates valid on the date of the transaction. Financial assets and liabilities in foreign currency are translated at the exchange rates valid at the balance sheet date. All resulting gains and losses are recorded in Net gains/(losses) from financial transactions in profit or loss.

II. Foreign operations
The assets and liabilities of foreign operations are translated to euro at spot exchange rates at the balance sheet date. The income and expenses of foreign operations are translated to euro at spot exchange rates on the date of the transactions. Exchange rate differences on the translation of foreign operations are recognised in other comprehensive income.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate (' EIR') method. EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. EIR is determined on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of EIR rate does not consider expected credit losses and includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or retirement of a financial asset or liability.

Interest income and expense from financial assets and liabilities at fair value through profit or loss are presented as part of Net interest income, and changes in the fair values of such instruments are presented at fair value in Net gains/(losses) from financial transactions.

(c) Fee and commission income and expenses

Fee and commission income and expense that are integral to EIR of a financial asset or liability are included in the calculation of EIR. Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised when the related services are performed. Loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commissions relate mainly to transaction costs and service fees, which are recognised as the services are received.

(d) Net gains or losses from financial transactions

Net gains or losses from financial transactions comprise the following transactions:

- Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss;
- Gains/(losses) on financial assets and liabilities held for trading;
- Gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss;
- Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss;
- Gains/(losses) from hedge accounting;
- Exchange differences.

(e) Dividend income

Dividend income is recognised when the right to receive income is established.

(f) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(g) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except for items recognised directly in equity and in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Financial assets and liabilities measured and recognized in accordance with IAS 39 until 31 December 2017

I. Recognition

The Bank initially recognises loans and advances, deposits by banks, customer accounts, loans received and debt securities on the date they are originated. All purchases and sales of securities are recognised on settlement day. Derivative instruments are initially recognised on the trade date, upon which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue (for items that are not valued at fair value through profit or loss).

II. Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. The Bank also derecognises certain assets when it writes off assets deemed to be uncollectible.

III. Offsetting

Financial assets and liabilities are in general not set-off. They are presented net in the statement of financial position only when the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Right to offset financial assets and financial liabilities is applicable only if it is not contingent on a future event and is enforceable by all counterparties in the normal course of business, as well as in the event of insolvency and bankruptcy. Compensation refers mainly to supplier-customer relations, accounted for only based on supporting evidence of offsetting.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

IV. Amortized costs measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization, using the effective interest rate method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

V. Identification and measurement of impairment

At each end of a reporting period, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are

impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Assets that are not individually significant are also collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including investment securities) may be impaired include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as a deterioration in economic conditions or adverse changes in the payment status of borrowers or issuers in that group.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default and timing of recoveries. Default rates, loss rates and the expected timing of future recoveries are regularly compared to actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are calculated as the difference between the book value of the financial asset and the present value of estimated future cash flows discounted at the asset's original EIR. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on financial assets available for sale are recognised by transferring the difference between the amortized acquisition cost and current fair value that has been recognised in other comprehensive income, and presented in the fair value reserve in equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired financial asset available for sale is recognised in other comprehensive income. Changes in impairment losses attributable to the time value of money are reflected as a component of Net interest income.

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered to be objective evidence of impairment. The Bank regards a decline in fair value in excess of 20% to be "significant" and a decline in a quoted market price on an active market that persist for nine months or longer to be prolonged.

(i) Financial assets measured and recognized in accordance with IFRS 9 from 1 January 2018

I. Initial recognition

The Bank initially recognises loans and advances, loans received and debt securities on the date they are originated. All purchases and sales of securities are recognised on settlement day. Derivative instruments are initially recognised on the trade date, upon which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue (for items that are not valued at fair

value through profit or loss). Immediately after initial recognition, an expected credit loss allowance ('ECL') is recognised for financial assets measured at amortised cost or FVOCI.

II. Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories:

- Amortised cost ('AC');
- Fair value through profit or loss ('FVPL');
- Fair value through other comprehensive income ('FVOCI').

The classification requirements for debt and equity instruments under IFRS 9 are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring and other financial assets.

Classification and subsequent measurement of debt instruments depends on:

a. Business model for managing the asset

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

The business model for asset management is evaluated on a portfolio basis. Financial assets are classified into the classes according to the products with the same characteristics in relation to the generated cash flows.

b. Cash flow characteristics of the asset

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are treated as a whole when determining whether their cash flows represent only principal and interest payments.

The Bank reclassifies debt investments when and only when its business model for

managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are not expected or are expected to be very infrequent.

Based on the business model and SPPI test the Bank classifies its debt instruments into one of the following measurement categories:

- Amortised cost

(A) Cash, cash balances at central banks and other demand deposits

Cash and balances at the central banks comprise cash on hand, unrestricted cash balances at central banks and other demand deposits at other credit institutions. Collateral accounts at other credit institutions whose use is restricted are reported within Financial assets at amortised cost.

(B) Financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent only solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation, using the effective interest rate method, of any difference between the initial amount recognised and the maturity amount. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in Net interest income using the effective interest rate method.

- Fair value through profit or loss

(A) Financial assets held for trading

Financial assets that the Bank acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together with achieving short-term profit or maintaining position. These assets do not meet the criteria for amortised cost or FVOCI based on Bank's business model, so they are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss statement within Net gains/(losses) from financial transactions in the period in which it arises.

(B) Non-trading financial assets mandatorily at fair value through profit or loss

Assets whose cash flows do not represent solely payments of principal and interest and therefore failed SPPI test are mandatorily measured at FVPL. Their measurement and subsequent recognition is the same as of financial assets held for trading.

(C) Financial assets designated at fair value through profit or loss

Under IFRS 9, it is permitted to irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. The Bank did not use the fair value option for any financial assets that meet the criteria for measurement at amortised cost or FVOCI.

- Fair value through other comprehensive income

Financial assets at fair value through other comprehensive income

Financial assets that are held both for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in Net gains/(losses) from financial transactions. Interest income from these financial assets is included in Net interest income using the effective interest method.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are never reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established within Dividend income.

Gains and losses on equity investments at FVPL (those designated at FVPL or classified as held for trading) are included within Net gains/(losses) from financial transactions line in the statement of profit or loss.

The Bank concluded that share certificates held in the Bank's portfolio meet the definition of puttable instruments. According to IFRS 9, puttable instruments do not meet the definition of an equity instrument and therefore the entities cannot make an irrevocable election to present the changes in fair value of such instruments in other comprehensive income. Due to cash flow characteristics of the assets, share certificates failed to meet the solely payments of principal and interest ('SPPI') requirement. As a result, these instruments are classified as Non-trading financial assets mandatorily at fair value through profit or loss.

III. Identification and measurement of credit losses

Credit loss is the difference between all contractual cash flows that are attributable to the entity in accordance with the contract and all cash flows that are expected to be received, discounted at the original effective interest rate. In estimating cash flows, the Bank considers all the terms and conditions of the financial asset during the expected life of that financial asset. Considered cash flows should also include cash flows from sale of collateral or any other form of credit risk mitigation that is an integral part of the terms and conditions.

The Bank assesses the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposures arising from loan commitments and financial guarantee contracts. The Bank recognises a loss

allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 34. Credit risk provides more detail of how the expected credit loss allowance is measured.

IV. Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Bank also derecognises certain assets when it writes off assets deemed to be uncollectible.

(j) Derivatives

Derivatives are measured at fair value in the statement of financial position. Changes in fair value depend on their classification:

Hedging derivatives

Under the Bank strategy, hedging derivatives are designed to hedge and manage selected risks. The Bank has elected to adopt IFRS 9 for hedge accounting purposes.

The main Bank criteria for classification of hedging derivatives are as follows:

- The relationship between hedging instrument and hedged item, in meaning of risk characteristics, function, target and strategy of hedging is formally documented at origination of the hedging transaction, together with the method that is used for assessment of effectiveness of the hedging relationship;
- The relationship between hedging instrument and hedged item is formally documented at the origination of the hedging transaction and the Bank expects that it will decrease the risk of hedged item;
- Hedging meets all effectiveness criteria:
  - There is an economic relationship between the hedging instrument and hedged item;
  - The impact of credit risk does not take into account changes in value resulting

from this economic relationship;

- The hedge ratio of the hedge is the same as the hedge ratio resulting from the amount of the hedging instrument used by the entity for hedging of the hedged item. However, this indication should not reflect the imbalance between the weighted shares of the hedged item and the hedging instrument that would create the hedge ineffectiveness (whether or not recognized) that could result in a business result inconsistent with the purpose of the hedge accounting.

I. Fair value hedge

The Bank uses financial derivatives to manage the level of risk in relation to interest rate risk. The Bank uses hedging derivatives to hedge the fair value of recognized assets. In case of microhedging the Bank hedges the fair value of bonds with fixed coupon. In case of macrohedging the Bank hedges the fixed interest rate loan and advances portfolio. As the purchase of bonds with fixed coupon and origination of loans and advances with fixed interest rate increases the interest rate risk of the Bank, the Bank entered into interest rate swaps to hedge the changes in fair value caused by changes in risk-free interest rates, and pays a fixed and receives a floating rate. The notional and fair values of the aforementioned hedging derivatives are described in Note 10.

Changes in the fair value without interest component (clean price) of hedging instruments are recognized in a separate profit and loss statement line as Net gains/(losses) from financial transactions. For microhedging, the changes in fair value without the interest component of the hedged items attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss as Net gains/(losses) from financial transactions. For macrohedging, the changes in fair value without the interest component of the hedged items are presented separately as the Fair value changes of the hedged items in portfolio hedge of interest rate risk and in the profit and loss are also included in the Net gains/(losses) from financial transactions.

Interest expense and interest income from the hedging instruments are presented together with the other interest income and expense items in the profit and loss statement under Net interest income. The positive value of hedging instruments is recognized in the statement of financial position as an asset – Derivatives – Hedge accounting. The negative value of hedging instruments is recognized as a liability – Derivatives – Hedge accounting. A summary of hedging derivatives is presented in Note 10.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised in profit or loss 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 profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same profit and loss statement line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. These are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

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

Other non-trading derivatives
When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of Net gains/(losses) from financial transactions.

Embedded derivatives

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Bank assesses the entire contract as financial asset and apply classification and measurement accounting principles according to IFRS 9.

Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative;
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

(k) Investments in subsidiaries, join ventures and associates

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other component of equity. Any resulting gain or loss is recognized in profit or loss. Any non-controlling interest retained in the former subsidiary is measured at fair value when control is lost.

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies.

Joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.
These financial statements are prepared as separate financial statements under Section 17 of the Slovak Act on Accounting 431/2002, as amended. Consequently,

in these financial statements, the Bank's investments in subsidiaries are accounted for at cost decreased by impairment losses, if any.

(l) Tangible and intangible assets

I. Recognition and measurement

Items of tangible assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the cost of that asset. When parts of an item of particular asset have different useful lives, they are accounted for as separate items (major components) of asset.

II. Subsequent costs

The cost of replacing part of an item of tangible asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part of asset will flow to the Bank and its cost can be reliably measured. The costs of the day-to-day servicing of tangible assets are recognised in profit or loss as incurred.

III. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible or intangible asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Depreciation commences when the asset is put into use.

The estimated useful lives for the current and comparative periods are as follows:

Type of asset	Period	Method
Buildings	40 years	straight line
Hardware	4 years	straight line
Fittings and other equipment	4-15 years	straight line
Software	4-7 years	straight line
Other intangible assets	4-7 years	straight line

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(m) Assets acquired based on finance lease contracts

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases and the assets are not recognised on the Bank's statement of financial position.

(n) Impairment losses on non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised directly in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Financial liabilities measured and recognized under IFRS 9 from 1 January 2018

I. Initial recognition

The Bank initially recognises deposits by banks and customer deposits and other financial liabilities on the date they are originated. Derivative instruments are initially recognised on the trade date, upon which the Bank becomes a party to the contractual provisions of the instrument.

A financial liability is measured initially at fair value including transaction costs that are directly attributable to its acquisition or issue (for items that are not valued at fair value through profit or loss).

II. Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability;
- Financial guarantee contracts and loan commitments.

III. Derecognition

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(p) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

The same principles as for measurement of expected credit losses for financial assets are applied also for measurement of provisions for off-balance sheet exposures arising from loan and other commitments and guarantees given.

(q) Employee benefits

I. Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

II. Short-term benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

(r) Offsetting

Financial assets and liabilities are in general not set-off. They are presented net in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The right to offset financial assets and financial liabilities is applicable only if it is not contingent on a future event and is enforceable by all counterparties in the normal course of business, as well as in the event of insolvency and bankruptcy. Compensation refers mainly to supplier-customer relations, accounted for only based on supported evidence of offsetting.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(s) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments were not effective

for the reporting periods ending 31 December 2018 and were not applied in these financial statements:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, the lessee recognizes assets that represent a right-of-use of the underlying assets, and a lease liability that represents an obligation to make lease payments. The new Standard introduces scope exceptions for lessees which include short-term leases and leases where the underlying asset has a low value ('small-ticket' leases). In addition, the timing of lease expense will change, where the linear expenses from operating lease contracts will be replaced with depreciation charge for right-of-use assets and interest expense on the lease liabilities. Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained. The Bank implemented the standard on 1 January 2019.

The Bank initially applied IFRS 16 using the modified retrospective approach. Therefore no adjustment to the opening balance of retained earnings at 1 January 2019 will be recognised. The Bank has applied simplified approach and the right-of-use assets were accounted in the same amount as lease liability, i.e. with no impact on equity.

The table below summarizes the impact of IFRS 16 as of 1 January 2019:

IFRS 16	€ '000
Right-of-use assets	32 865
Lease liabilities	32 865

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment, then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes.

Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. The Bank must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Bank does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Bank does not operate in a complex multinational tax environment or does not have material uncertain tax positions.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular the concern

was related to how the entities would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including ‚negative compensation'.

Applying this amendment, the entities would measure a financial asset with so-called negative compensation at fair value through profit or loss. The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The Bank does not expect that the amendments will have a material impact on the financial statements because the Bank does not have prepayable financial assets with negative compensation.

The following interpretations and amended standards, not yet effective for the accounting period ended on 31 December 2018, were not applied in the financial stetements and are not expected to have a significant impact on the Bank's financial statements.

- IFRS 17 Insurance Contracts
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures;
- Amendments to IAS 19: Employee Benefits;
- Amendments to IFRS 3 Business Combinations;
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

4. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes.

Expected credit losses

The measurement of ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk,
- Choosing appropriate models and assumptions for the measurement of ECL,
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL,
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Further information about determining ECL is included in the note 34. Credit risk.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Determining fair value of such instruments is also influenced by the assessment of the credit risk of the counterparty.

Further information about the amounts of financial instruments at fair value, analysed according to the valuation methodology (broken down into individual valuation levels) are included in the note 32. Fair values of financial assets and liabilities.

5. Cash, cash balances at central banks and other demand deposits

Compulsory minimum reserve account is reported within cash balances at central banks and is held at the National Bank of Slovakia ('NBS'). The account contains funds from the payment system as well as funds that the Bank is obliged to maintain in average level set by requirement of the NBS.

The amount of set reserve depends on the amount of received deposits and is calculated by multiplying particular items using the valid rate defined for the calculation of the compulsory minimum reserve. The account balance of compulsory minimum reserve may significantly vary depending on the amount of incoming and outgoing payments. The Bank, during the reporting period, fulfilled the set amount of compulsory minimum reserves.

€ '000	31. 12. 2018	31. 12. 2017
Cash on hand	26 022	25 114
Cash balances at central banks	260 052	20 952
Other demand deposits	16 316	17 545
Total	**302 390**	**63 611**

Above mentioned financial assets are not restricted.

Cash and cash equivalents are as follows:

€ '000	31. 12. 2018	31. 12. 2017	31.12.2016
Cash on hand	26 022	25 114	23 742
Other demand deposits	16 316	17 545	7 372
Total	**42 338**	**42 659**	**31 114**

6. Financial assets and liabilities held for trading

€ '000	31. 12. 2018	31. 12. 2017
Financial assets held for trading		
Derivatives	1 799	1 183
Foreign exchange and gold	1 799	1 183
Total	**1 799**	**1 183**
Financial liabilities held for trading		
Derivatives	469	5 846
Foreign exchange and gold	469	5 846
Total	**469**	**5 846**

The table below summarizes notional amount and fair value of derivatives held for trading.

€ '000	1.12.2018			31. 12. 2017		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives held for trading						
Foreign exchange and gold	224 544	1 799	469	834 131	1 183	5 846
Total	**224 544**	**1 799**	**469**	**834 131**	**1 183**	**5 846**

7. Non-trading financial assets mandatorily at fair value through profit or loss

€ '000	31. 12. 2018	31. 12. 2017
Equity instruments	**234 665**	-
Share certificates	234 665	-
Total	**234 665**	**-**

8. Financial assets at fair value through other comprehensive income

€ '000	31. 12. 2018	31. 12. 2017
Equity instruments	1 999	181 587
Shares	1 999	12 145
Share certificates	-	169 442
Debt securities	498 519	601 685
Central banks	-	-
General governments	280 682	386 380
Credit institutions	63 692	53 870
Other financial corporations	41 443	76 698
Non-financial corporations	112 702	84 737
Total	**500 518**	**783 272**
Impairment allowances to debt securities in OCI	(984)	x

The movements in impairment allowances for financial assets at fair value through other comprehensive income are as follows:

€ '000	Stage 1	Stage 2	Stage 3	POCI	Total
Adjusted balance as at 1 Jan 2018 due to IFRS 9	**(848)**	**-**	**-**	**-**	**(848)**
Increases due to origination and acquisition	(264)	-	-	-	(264)
Decreases due to derecognition	111	-	-	-	111
Changes due to change in credit risk (net)	31	-	-	-	31
Transfers:	-	-	-	-	-
to/(from) Stage 1	x	-	-	-	-
to/(from) Stage 2	-	x	-	-	-
to/(from) Stage 3	-	-	x	-	-
Changes due to movements in FX rates	(14)	-	-	-	(14)
Closing balance as at 31 Dec 2018	**(984)**	**-**	**-**	**-**	**(984)**

The following table summarizes carrying value of transferred financial assets not derecognised in the statement of financial position and value of related liabilities (repurchase agreements).

€ '000	Carrying amount of transferred assets		Carrying amount of associated liabilities	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Debt securities	106 662	-	99 710	-
Collateral given in repurchase agreements	106 662	-	99 710	-

9. Financial assets at amortised cost

€ '000	Gross value		Impairment allowances		Amortized costs	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Debt securities	**415 913**	**390 946**	**(2 406)**	**-**	**413 507**	**390 946**
Central banks	-	-	-	-	-	-
General governments	290 309	260 409	(78)	-	290 231	260 409
Credit institutions	6 002	21 001	-	-	6 002	21 001
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	119 602	109 536	(2 328)	-	117 274	109 536
Loans and advances	**2 839 099**	**3 072 147**	**(197 330)**	**(169 361)**	**2 641 769**	**2 902 786**
Central banks	165 726	683 836	-	-	165 726	683 836
General governments	-	-	-	-	-	-
Credit institutions	7 242	37 823	(20)	-	7 222	37 823
Other financial corporations	282 519	181 312	(8 557)	(5 927)	273 962	175 385
Non-financial corporations	1 196 401	1 239 279	(81 018)	(58 214)	1 115 383	1 181 065
Households	1 187 211	929 897	(107 735)	(105 220)	1 079 476	824 677
Other financial assets	**50 460**	**60 541**	**(209)**	**(529)**	**50 251**	**60 012**
Total	**3 305 472**	**3 523 634**	**(199 945)**	**(169 890)**	**3 105 527**	**3 353 744**

Other financial assets comprise the following:

€ '000	31. 12. 2018	31. 12. 2017
Other financial assets, gross	**50 460**	**60 541**
Clearing and settlement items	7 468	22 019
Cash collateral	6 678	6 378
Tax receivables	-	507
Trade receivables	1 493	1 449
Other	34 821	30 188
Impairment allowances	**(209)**	**(529)**
Total	**50 251**	**60 012**

Impairment allowances comprise the following:

€ '000	31. 12. 2018				31. 12. 2017	
	Stage 1	Stage 2	Stage 3	POCI	Individual	Collective
Debt securities	**(2 406)**	-	-	-	-	-
Central banks	-	-	-	-	-	-
General governments	(78)	-	-	-	-	-
Credit institutions	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-
Non-financial corporations	(2 328)	-	-	-	-	-
Loans and advances	**(23 723)**	**(26 723)**	**(146 884)**	**-**	**(64 014)**	**(105 347)**
Central banks	-	-	-	-	-	-
General governments		-	-	-	-	-
Credit institutions	(10)	(10)	-	-	-	-
Other financial corporations	(1 790)		(6 767)	-	(5 925)	(2)
Non-financial corporations	(9 612)	(4 989)	(66 417)	-	(58 089)	(125)
Households	(12 311)	(21 724)	(73 700)	-	-	(105 220)
Other financial assets	**-**	**(209)**	**-**	**-**	**-**	**(529)**
Total	**(26 129)**	**(26 932)**	**(146 884)**	**-**	**(64 014)**	**(105 876)**

The movements in impairment allowances for debt securities and loans and advances at amortised cost are as follows:

€ '000	Debt securities				
	Stage 1	Stage 2	Stage 3	POCI	Total
Adjusted balance as at 1 Jan 2018 due to IFRS 9	**(1 328)**	**-**	**-**	**-**	**(1 328)**
Increases due to origination and acquisition	(130)	(2)	-	-	(132)
Decreases due to derecognition	65	7	-	-	72
Changes due to change in credit risk (net)	(1 013)	(5)	-	-	(1 018)
Transfers:	-	-	-	-	-
to/(from) Stage 1	x	-	-	-	-
to/(from) Stage 2	-	x	-	-	-
to/(from) Stage 3	-	-	x	-	-
Changes due to movements in FX rates	-	-	-	-	-
Closing balance as at 31 Dec 2018	**(2 406)**	**-**	**-**	**-**	**(2 406)**

€ '000	Loans and advances				
	Stage 1	Stage 2	Stage 3	POCI	Total
Adjusted balance as at 1 Jan 2018 due to IFRS 9	**(34 610)**	**(16 374)**	**(149 566)**	**-**	**(200 550)**
Increases due to origination and acquisition	(12 613)	(1 958)	(12 702)	-	(27 273)
Decreases due to derecognition	8 595	2 529	47 710	-	58 834
Changes due to change in credit risk (net)	10 356	(16 622)	(21 955)	-	(28 221)
Transfers:	4 561	5 702	(10 263)	-	-
to/(from) Stage 1	x	(5 342)	781	-	(4 561)
to/(from) Stage 2	5 342	x	(11 044)	-	(5 702)
to/(from) Stage 3	(781)	11 044	x	-	10 263
Changes due to movements in FX rates	(12)	-	(108)	-	(120)
Closing balance as at 31 Dec 2018	**(23 723)**	**(26 723)**	**(146 884)**	**-**	**(197 330)**

€ '000	Individual	Collective
Opening balance as at 1 Jan 2017	**(60 121)**	**(110 343)**
Net charge to profit or loss	(28 651)	(25 347)
Release of impairment losses on assigned loans	25 405	30 341
Movements from changes in foreign exchange rates	(647)	2
Closing balance as at 31 Dec 2017	**(64 014)**	**(105 347)**

10. Hedging derivatives

The Bank uses fair value hedge. For microhedging, the hedged items are selected fixed-coupon debt securities from the portfolio of Financial assets at FVOCI. For macrohedging, the hedged items are selected fixed-interest rate loans and advances to customers. In both cases, interest rate swaps are used as hedging instruments for which the Bank pays fixed interest rate and receives floating interest rate. The hedge was effective in hedging the fair value exposure to interest rate movements during the entire hedge relationship. Changes in the fair value of these interest rate swaps due to changes in interest rates substantially offset changes in the fair value of the hedged items caused by changes in interest rates.

The table below summarizes notional amount and fair value of hedging derivatives. The notional amounts represent the volume of unpaid transactions at a certain point in time; they do not represent the potential gain or loss associated with the market risk or credit risk of these transactions.

€ '000	31. 12. 2018			31. 12. 2017		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
Derivatives – Hedge accounting	**211 610**	**-**	**4 656**	**193 610**	**-**	**3 738**
Interest rate	211 610	-	4 656	193 610	-	3 738
Portfolio fair value hedges of interest rate risk	93 400	-	951	-	-	-
Total	**305 010**	**-**	**5 607**	**193 610**	**-**	**3 738**

€ '000	2018	2017
Fair value changes of the hedging instrument	(1 761)	1 134
Fair value changes of the hedged item attributable to the hedged risk	1 761	(1 134)
Total	-	-

11. Investments in subsidiaries, joint ventures and associates

€ '000	31. 12. 2018	31. 12. 2017
Cost	**52 873**	**45 351**
Subsidiaries	52 259	44 737
Prvá penzijná správcovská spoločnosť Poštovej banky, správ. spol., a. s.	9 230	9 230
Poštová poisťovňa, a.s.	9 129	9 129
DSS Poštovej banky, d. s. s., a. s.	14 500	14 500
Amico Finance, a.s.	6 477	-
PB Servis, a.s.	605	605
PB Finančné služby, a.s.	4 615	4 615
PB Partner, a.s.	4 603	4 603
PB IT, a.s.	-	55
365.fintech, a.s.	1 100	-
365.world, o.p.f.	2 000	2 000
Joint ventures	140	140
SPPS, a.s.	140	140
Associates	474	474
ART FOND – Stredoeurópsky fond súčasného umenia, a.s.	474	474
Impairment	**(5 236)**	**(3 539)**
Total	**47 637**	**41 812**

On January 1, 2018, the Bank acquired part of PB Partner, a.s. Recognition of this business combination involving entities under common control was implemented by the pooling of interests method so that financial information for periods prior to the date of the business combination have not been modified. The Bank transferred assets and liabilities of PB Partner, a. s. at carrying amount on the day preceding the business combination date. The difference between the acquisition cost and net assets value was recognized in the Bank's equity.

Acquisition of part of the business	€ '000
Acquisition price	2 791
Net assets acquired	662
Loss from the purchase	(2 129)

On 23 January 2018, 365.fintech, a.s. was incorporated in the Commercial Register. The Bank owns a 100% share in the registered capital. The main activity of the company is the support of start-ups in the form of capital participation in the share capital or providing of loans financing.

In April 2018, the liquidation of the subsidiary PB IT, a.s. completed.

On 26 October 2018, the Bank obtained control in Amico Finance, a.s., whose main activity is the provision of consumer loans and purchase on credit. As at 31 December 2018, the Bank owns 95% of the company's share.

There were the following changes in investments in subsidiaries, jointly controlled entity and associate jointly controlled entities and associates during 2017:

- The Bank increased its share in ART FOND – Stredoeurópsky fond súčasného umenia, a.s. from 27.7% to 37.13% by acquisition of 188 new shares in amount of € 276 thousand;
- The Bank increased the share capital of PB Servis, a.s. by an amount of € 550 thousand;
- The Bank obtained control in 365.world o.p.f. by acquisition of 100% shares in the fund.

12. Tangible assets

€ '000	Land and buildings	Hardware	Fittings and other equipment	Assets not yet in use	Total
Cost					
As of 1 January 2018	7 507	7 460	12 520	1 072	28 559
Additions	-	-	-	2 597	2 597
Additions from business combinations	-	-	-	-	-
Additions from acquisition of the business	-	-	-	205	205
Transfers	39	1 834	1 306	(3 179)	-
Disposals	(283)	(138)	(1 013)	-	(1 434)
As of 31 December 2018	**7 263**	**9 156**	**12 813**	**695**	**29 927**
Accumulated depreciation					
As of 1 January 2018	(3 644)	(5 262)	(9 032)	-	(17 938)
Additions from business combinations	-	-	-	-	-
Depreciation for the year	(182)	(1 201)	(1 603)	-	(2 986)
Disposals	60	135	1 219	-	1 414
As of 31 December 2018	**(3 766)**	**(6 328)**	**(9 416)**	**-**	**(19 510)**
Impairment losses	**(791)**	**-**	**(12)**	**-**	**(803)**
Carrying amount as at 31.12.2018	**2 706**	**2 828**	**3 385**	**695**	**9 614**

€ '000	Land and buildings	Hardware	Fittings and other equipment	Assets not yet in use	Total
Cost					
As of 1 January 2017	10 491	6 984	15 211	542	33 228
Additions from business combinations	-	-	-	-	-
Additions	-	-	-	3 255	3 255
Transfers	6	1 181	1 538	(2 725)	-
Disposals	(2 991)	(706)	(4 229)	-	(7 926)
As of 31 December 2017	**7 506**	**7 459**	**12 520**	**1 072**	**28 557**
Accumulated depreciation					
As of 1 January 2017	(5 110)	(5 047)	(11 601)	-	(21 758)
Additions from business combinations	-	-	-	-	-
Depreciation for the year	(202)	(920)	(1 551)	-	(2 673)
Disposals	1 668	705	4 120	-	6 493
As of 31 December 2017	**(3 644)**	**(5 262)**	**(9 032)**	**-**	**(17 938)**
Impairment losses	**(845)**	**-**	**(33)**	**-**	**(878)**
Carrying amount as at 31.12.2017	**3 017**	**2 197**	**3 455**	**1 072**	**9 741**

Movements in impairment losses were as follows:

€ '000	31. 12. 2018	31. 12. 2017
Opening balance as at 1 January	(878)	(1 423)
Net creation/(release) of impairment losses	75	545
Amounts used	-	-
Closing balance	(803)	(878)

The Bank used fully depreciated tangible assets with an acquisition cost as follows:

€ '000	31. 12. 2018	31. 12. 2017
Costs of fully depreaciated tangible assets in use	9 620	10 559

Tangible assets are insured against natural disasters, malicious damage, theft and robbery. Motor vehicles are insured through motor third party liability and casco insurance. The Bank's tangible assets are not pledged.

€ '000	31. 12. 2018	31. 12. 2017
Insurance amount of fixed assets	9 600	9 957

13. Intangible assets

€ '000	Software	Other intangible assets	Assets not yet in use	Total
Cost				
As at 1 January 2018	43 410	64	4 606	48 080
Additions	-	-	10 388	10 388
Additions from business combinations	-	-	-	-
Additions from acquisition of the business	-	-	101	101
Transfers	12 334	19	(12 353)	-
Disposals	(302)	-	(313)	(615)
As at 31 December 2018	**55 442**	**83**	**2 429**	**57 954**
Accumulated amortisation				
As at 1 January 2018	(24 164)	(31)	-	(24 195)
Additions from business combinations	-	-	-	-
Amortisation for the year	(6 788)	(21)	-	(6 809)
Disposals	302	-	-	302
As at 31 December 2018	**(30 650)**	**(52)**	**-**	**(30 702)**
Impairment losses	**-**	**-**	**-**	**-**
Carrying amount as at 31.12.2018	**24 792**	**31**	**2 429**	**27 252**

€ '000	Software	Other intangi-ble assets	Assets not yet in use	Total
Cost				
As of 1 January 2017	47 372	114	4 297	51 783
Additions	-	-	11 378	11 378
Additions from business combinations	-	-	-	-
Additions from acquisition of the business	-	-	-	-
Transfers	11 034	32	(11 066)	-
Disposals	(14 996)	(83)	-	(15 079)
As of 31 December 2017	**43 410**	**63**	**4 609**	**48 082**
Accumulated amortisation				
As of 1 January 2017	(34 033)	(97)	-	(34 130)
Additions from business combinations	-	-	-	-
Amortisation for the year	(5 129)	(16)	-	(5 145)
Disposals	14 997	82	-	15 079
As of 31 December 2017	**(24 165)**	**(31)**	**-**	**(24 196)**
Impairment losses	**-**	**-**	**-**	**-**
Carrying amount as at 31. 12. 2017	**19 245**	**32**	**4 609**	**23 886**

The Bank used fully depreciated intangible assets with an acquisition cost as follows:

€ '000	31. 12. 2018	31. 12. 2017
Costs of fully amortized intangible assets in use	8 148	7 881

14. Deferred tax assets and liabilities

€ '000	31. 12. 2018	31. 12. 2017
SK		
Impairment on financial assets at AC	15 822	11 710
Impairment on financial assets at FVOCI	512	512
Impairment on other assets	-	77
Provisions for off-balance sheet exposures	627	244
Revaluation of financial assets at FVOCI	(2 118)	(3 354)
Tangible assets	(300)	(325)
Other	2 739	2 806
Total	**17 282**	**11 670**
CZ		
Provisions for off-balance sheet exposures	105	4
Tangible assets	(1)	(1)
Other	23	20
Total	**127**	**23**
Total deferred tax assets	**17 409**	**11 693**

The deferred tax asset and deferred tax liabilities are calculated using following tax rates:

	31. 12. 2018	31. 12. 2017
Companies in SK	21 %	21 %
Companies in CZ	19 %	19 %

Movements in deferred tax were as follows:

€ '000	Pozn.	31. 12. 2018	31. 12. 2017
Opening balance as at 1 January		11 693	13 876
Through profit or loss	30	778	(1 682)
Through other comprehensive income		(41)	(501)
Through retained earnings		4 979	-
Closing balance		**17 409**	**11 693**

15. Other assets

€ '000	31. 12. 2018	31. 12. 2017
Deferred expenses	12 202	13 991
Accrued income	1 008	881
Inventories	631	608
Prepayments	6 047	3 271
Impairment losses	-	-
Total	**19 888**	**18 751**

16. Financial liabilities measured at amortised cost

€ '000	31. 12. 2018	31. 12. 2017
Deposits	**3 595 201**	**3 617 352**
General governments	5 187	12 927
Current accounts / overnight deposits	2 124	2 450
Deposits with agreed maturity	3 063	10 477
Credit institutions	112 384	13 586
Current accounts / overnight deposits	4 661	5 573
Deposits with agreed maturity	8 013	8 013
Repurchase agreements	99 710	-
Other financial corporations	192 683	254 574
Current accounts / overnight deposits	151 350	203 425
Deposits with agreed maturity	41 333	51 149
Non-financial corporations	373 708	328 455
Current accounts / overnight deposits	273 293	240 289
Deposits with agreed maturity	100 415	88 166
Households	2 911 239	3 007 810
Current accounts / overnight deposits	1 435 237	1 390 811
Deposits with agreed maturity	1 278 543	1 400 264
Deposits redeemable at notice	197 459	216 735
Other financial liabilities	**14 446**	**23 875**
Clearing and settlement items	7 088	12 261
Liabilities to employees	4 136	3 751
Liabilities from social and health insurance and social fund	1 425	1 211
Tax liabilities	939	1 977
Received prepayments	-	220
Liabilities from dividends	28	22
Other creditors	830	4 433
Total	**3 609 647**	**3 641 227**

The table below summarizes loans received classified within financial liabilities measured at amortised cost:

€ '000	31. 12. 2018	31. 12. 2017
Subordinated debt	8 013	8 013
Other received loans	-	-

In the event of bankruptcy or liquidation of the Bank, subordinated debt will be subordinated to the claims of all other creditors of the Bank.

Creditor	Debtor	Carrying amount	Interest rate	Maturity
J&T BANKA, a.s.	Poštová banka, a.s.	8 013	6,0 % p. a.	31. 12. 2026

The reconciliation of the movements of liabilities to the cash flows from financing activities is as follows:

€ '000	Subordinated debt	
	31. 12. 2018	31. 12. 2017
Opening balance as at 1 January	8 013	8 013
Interest expenses	427	427
Interest paid	(427)	(427)
Closing balance	**8 013**	**8 013**

17. Provisions

€ '000	31. 12. 2018	31. 12. 2017
Commitments and guarantees given	3 540	1 186
Loan commitments	2 892	1 186
Guarantees given	648	-
Other provisions	531	-
Total	**4 071**	**1 186**

The movements in provisions for commitments and guarantees given were as follows:

€ '000	Commitments and guarantees given				
	Stage 1	Stage 2	Stage 3	POCI	Total
Adjusted balance as at 1 Jan 2018 due to IFRS 9	**1 711**	**2 243**	**2 167**	**-**	**6 121**
Increases due to origination and acquisition	1 899	1 535	48	-	3 482
Decreases due to derecognition	(1 178)	(1 632)	(1 030)	-	(3 840)
Changes due to change in credit risk (net)	(1 575)	(964)	316		(2 223)
Transfers:	381	(381)	-	-	-
(to)/from Stage 1	x	(381)	-	-	(381)
(to)/from Stage 2	381	x	-	-	381
(to)/from Stage 3	-	-	x	-	-
Changes due to movements in FX rates	-	-	-	-	-
Closing balance as at 31 Dec 2018	**1 238**	**801**	**1 501**	**-**	**3 540**

18. Other liabilities

€ '000	31. 12. 2018	31. 12. 2017
Estimated payables	11 320	15 136
Deferred income	307	178
Total	**11 627**	**15 314**

19. Equity

a) Share capital

	31. 12. 2018	31. 12. 2017
Nominal value per share in EUR	1 107	1 107
Number of shares	330 899	330 899
Total share capital in EUR '000	**366 305**	**366 305**

All shares of the Bank are ordinary registered shares.

b) 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 which is not less than 10% of its annual net profit until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve fund is not readily distributable to shareholders.

c) Revaluation of financial instruments measured through other comprehensive income

This item includes the revaluation of FVOCI of financial assets and related hedging derivatives, which represents a net cumulative change in the fair value of FVOCI financial assets, including the effect of hedging derivatives and taking into account the deferred tax. As of 1 January 2018, in connection with the implementation of the IFRS 9 Accounting Standard, the Bank also presents impairment allowances for debt securities at fair value through other comprehensive income within this equity item.

d) Translation reserve

The translation reserve comprises all foreign exchange rate differences arising from the translation of the financial statements of foreign operations.

e) Distribution of profit for previous period

General Meeting of shareholders decided on distribution of prior year profits as follows:

€ '000	
Profit for the year	47 887
Dividends	23 943
Transfer to retained earnings	19 154
Transfer to legal reserve fund	4 790

f) Proposal of distribution of profit for current period

Profit distribution for the current period is subject to approval of the Shareholders' meeting.

20. Off-balance sheet items

a) Loan commitments, financial guarantees and other commitments given

€ '000	31. 12. 2018	31. 12. 2017
Loan commitments given	307 164	364 663
Financial guarantees given	36 369	26 936
Other commitments given	-	4 216
Letter of credits	-	4 216
Total	**343 533**	**395 815**

b) Assets involved in the services provided

€ '000	31. 12. 2018	31. 12. 2017
Asset management	468 586	400 886
Custody assets	154 409	154 871
Total	**622 995**	**555 757**

c) Securities provided as collateral

The Bank has pledged debt securities in carrying amount as summarized in the table below. The pledge was provided against transactions with central bank and credit institutions. These debt securities have not been derecognized from Bank's statement of financial position.

€ '000	31. 12. 2018	31. 12. 2017
Financial assets at fair value through other comprehensive income	118 508	23 578
Financial assets at amortised cost	168 525	168 385
Total	**287 033**	**191 963**

21. Offsetting of financial assets and liabilities

The following table shows the financial assets and financial liabilities that could be offset under „master netting agreements" or similar agreements (legally enforceable):

31. 12. 2018	Values, gross	Offset values, gross	Presented values, net	Possible effect of master offsetting agreements			Net values after possible offsetting
				Financial instru-ments	Cash collateral	Non-cash financial collateral	
Financial assets							
Derivatives	1 799	-	1 799	108	212	-	1 479
Hedging derivatives	-	-	-	-	-	-	-
Total assets	**1 799**	**-**	**1 799**	**108**	**212**	**-**	**1 479**
Financial liabilities							
Derivatives	469	-	469	108	-	-	361
Hedging derivatives	5 607	-	5 607	-	4 860	-	747
Total liabilities	**6 076**	**-**	**6 076**	**108**	**4 860**	**-**	**1 108**

31. 12. 2018	Values, gross	Offset values, gross	Presented values, net	Possible effect of master offsetting agreements			Net values after possible offsetting
				Financial instru-ments	Cash collateral	Non-cash financial collateral	
Financial assets							
Derivatives	1 183	-	1 183	1 183	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Total assets	**1 183**	**-**	**1 183**	**1 183**	**-**	**-**	**-**
Financial liabilities							
Derivatives	5 846	-	5 846	1 183	2 318	-	2 345
Hedging derivatives	3 738	-	3 738	-	3 373	-	365
Total liabilities	**9 584**	**-**	**9 584**	**1 183**	**5 691**	**-**	**2 710**

22. Net interest income

€ '000	2018	2017
Interest income		
Financial assets held for trading	-	3
Financial assets at fair value through other comprehensive income	8 908	7 081
Financial assets at amortised cost	168 072	167 616
Debt securities	17 579	20 196
Loans and advances	150 493	147 420
Derivatives - Hedge accounting, interest rate risk	(1 272)	(1 122)
Other assets	49	693
Cash balances at central banks	11	337
Other	38	356
Total interest income	**175 757**	**174 271**
Interest expenses		
Financial liabilities measured at amortised cost	(8 730)	(14 462)
Derivatives - Hedge accounting, interest rate risk	-	-
Other liabilities	(12)	(17)
Interest expense on assets	-	-
Total interest expense	**(8 742)**	**(14 479)**
Net interest income	**167 015**	**159 792**

€ '000	2018	2017
Interest income calculated on an EIR	177 029	175 393
Other interest income	(1 272)	(1 122)
Total interest income	**175 757**	**174 271**

23. Net fee and commission income

€ '000	2018	2017
Fee and commission income		
Securities	4	-
Clearing and settlement	2 288	2 224
Custody	2 032	1 805
Payment services	1 702	1 672
Loan servicing activities	2 767	2 784
Current accounts servicing activities	23 022	22 907
Loan commitments given	381	285
Financial guarantees given	403	319
Other	11 445	10 556
Total fee and commission income	**44 044**	**42 552**
Fee and commission expenses		
Clearing and settlement	(11 535)	(11 949)
Custody	(209)	(176)
Loan servicing activities	(1 778)	(729)
Other	(2 823)	(7 618)
Total fee and commission expenses	**(16 345)**	**(20 472)**
Net fee and commission income	**27 699**	**22 080**

24. Dividend income

€ '000	2018	2017
Financial assets at fair value through other comprehensive income	7	2 008
Investments in subsidiaries, joint ventures and associates	10 078	8 497
Total	**10 085**	**10 505**

25. Net gains/(losses) from financial transactions

€ '000	2018	2017
Gains/(losses) on derecognition of financial assets and liabilities not at FVPL	**278**	**1 066**
Financial assets at fair value through other comprehensive income	344	880
Equity instruments	341	735
Debt securities	3	145
thereof: reclassified from other comprehensive income	(14)	-
Financial assets at amortised cost	-	186
Debt securities	-	186
Other	(66)	-
Gains/(losses) on financial assets and liabilities held for trading, net	**(1 976)**	**(39 251)**
Derivatives	(2 271)	(39 296)
Equity instruments	294	-
Debt securities	1	45
Gains/(losses) on non-trading financial assets mandatorily at FVPL, net	**3 187**	**-**
Revaluation gains/(losses)	2 728	-
Trading gains/(losses)	459	-
Gains/(losses) from hedge accounting, net	**-**	**-**
Fair value changes of the hedging instrument	(1 761)	1 134
Fair value changes of the hedged item attributable to the hedged risk	1 761	(1 134)
Exchange differences, net	(1 212)	51 335
Total	**277**	**13 150**

26. Net other operating expenses

€ '000	2018	2017
Bank specific fees	**(7 834)**	**(8 032)**
Special levy for banking institutions	(7 202)	(7 277)
Resolution fund	(310)	(413)
Deposit protection fund	(322)	(342)
Other income/(expense)	2 401	867
Gains/(losses) on derecognition of non-financial assets, net	(4)	(492)
Other	2 405	1 359
Total net other operating expense	**(5 433)**	**(7 165)**

27. Administrative expenses

€ '000	2018	2017
Staff expenses	**(43 802)**	**(37 546)**
Wages and salaries (including bonuses)	(30 823)	(26 914)
Social expenses	(12 979)	(10 632)
Other administrative expenses	**(44 241)**	**(43 737)**
Rent, energies, facility services and maintenance	(11 466)	(9 509)
IT expenses	(6 116)	(5 018)
Marketing and advertisment	(8 092)	(10 628)
Legal and consulting services	(2 101)	(2 911)
Post and telecomunication	(3 136)	(3 368)
Material consumption	(1 298)	(1 531)
Other administrative expenses	(12 032)	(10 772)
Total	**(88 043)**	**(81 283)**

	2018	2017
Average number of employees for the period	1 344	1 091
Number of employees as of balance sheet date	1 363	1 046
of which, management	18	30

The costs of services provided by the statutory auditor were as follows:

€ '000	31. 12. 2018	31. 12. 2017
Audit of the financial statements	(181)	(178)
Other assurance services	(88)	(90)
Other non-assurance services	-	(5)
Total	**(269)**	**(273)**

The following table summarizes future minimum lease payments under non-cancellable operating leases:

€ '000	31. 12. 2018	31. 12. 2017
Up to 1 year	7 791	625
1-5 years	20 693	3 502
Over 5 years	6 501	502
Total	**34 985**	**4 629**

28. Depreciation

€ '000	2018	2017
Property, plant and equipment	**(2 986)**	**(2 673)**
Buildings	(182)	(202)
Hardware	(1 201)	(920)
Fittings and other equipment	(1 603)	(1 551)
Intangible assets	**(6 809)**	**(5 145)**
Software	(6 788)	(5 129)
Other intangible assets	(21)	(16)
Total	**(9 795)**	**(7 818)**

29. Impairment losses and creation of provisions

€ '000	2018	2017
Impairment losses of financial assets not valued at fair value through profit or loss	**(36 537)**	**(43 435)**
Financial assets at fair value through other comprehensive income	(127)	(4 878)
Equity instruments	x	(4 878)
Debt securities	(127)	-
Loans and advances	-	-
Financial assets at amortised cost	(36 410)	(38 557)
Debt securities	(1 072)	-
Loans and advances	(35 663)	(38 851)
Other financial assets	325	294
Impairment losses of investments in subsidiaries, joint ventures and associates	**(1 697)**	**(2 553)**
Release/(creation) of provisions	**2 049**	**269**
Net mpairment losses on non-financial assets	**75**	**545**
Total	**(36 110)**	**(45 174)**

30. Income tax

€ '000	2018	2017
Current income tax	**(16 079)**	**(14 518)**
Current year	(16 153)	(14 703)
Correction of prior period	677	185
Withholding tax	(603)	-
Deferred tax	**778**	**(1 682)**
Total	**(15 301)**	**(16 200)**

Reconciliation of the effective tax rate:

€ '000	2018		2017	
	Tax base	Tax at 21%	Tax base	Tax at 21%
Profit before tax	65 695	13 796	64 087	13 458
Tax non-deductible items	(42 711)	(8 969)	(38 380)	(8 060)
Tax deductible items	53 935	11 326	58 712	12 330
Income tax expense before utilizing tax losses	x	16 153	x	17 728
Use of losses carried forward	x	-	x	(3 348)
Offset of tax paid abroad	x	(572)	x	(1 138)
Witholding tax	x	603	x	-
Tax paid abroad	x	572	x	1 461
Correction of previous period	x	(677)	x	(185)
Deferred tax	x	(778)	x	1 682
Total	**x**	**15 301**	**x**	**16 200**
Effective tax rate		**23,29 %**		**25,28 %**

Many parts of Slovak tax legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

31. Related parties transactions

Parties are considered to be related, if one party has the ability to control the other party, or if it has through its financial and operational decisions significant influence over the other party.

The following persons or companies meet the definition of related parties:

(a) Companies that directly or indirectly through one or more intermediaries control or are controlled, have significant influence or are under joint control of the reporting company;

(b) Affiliated company in which the parent company has significant influence and which is not a subsidiary, nor a joint venture;

(c) Individual owning, directly or indirectly, share in the voting right of the Bank that gives them significant influence over the Bank and any other individual who may be expected to influence, or be influenced by that person in their dealings with the Bank;

(d) Key management personnel, i.e. persons having authority and responsibility for planning, managing and controlling the activities of the Bank, including directors and managing employees of the Bank and persons related to them;

(e) Companies in which a significant share of voting rights is owned, directly or indirectly, by any person described in point (c) or (d) or over which such party may have a significant influence. This includes companies owned by directors or major shareholders of the Bank and companies that have key member of management common with the Bank.

31.12.2018	Share-holders	Members of J&T FINANCE GROUP SE	Subsidiar-ies	Joint ventures	Associates	Key manage-ment and related parties	Others
Assets	**-**	**250**	**23 652**	**94**	**-**	**950**	**46 186**
Other demand deposits	-	209	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Financial assets at FVOCI	-	-	-	-	-	-	-
Financial assets at amortised cost	-	41	23 652	94	-	950	46 186
Debt securities	-	-	-	-	-	-	-
Loans and advances	-	-	21 584	-	-	950	46 186
Other financial assets	-	41	2 068	94	-	-	-
Liabilities	**4**	**15 492**	**24 263**	**2 177**	**-**	**600**	**1 624**
Financial liabilities held for trading	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	4	15 492	24 263	2 177	-	600	1 624
Deposits	4	15 489	22 593	2 177	-	600	1 624
Other financial liabilities	-	3	1 670	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-	-
2018							
Income/expenses							
Net interest income	-	177	897	-	-	9	1 254
Net fee and commission income	(79)	4	4 075	1 408	-	2	13
Net gains/(losses) from financial transactions	-	(1 696)	-	-	-	-	-
Net other operating expenses	-	14	(2 061)	93	-	-	-
Administrative expenses	-	(16)	(8 300)	-	-	(1 885)	(126)

31.12.2017	Share-holders	Members of J&T FINANCE GROUP SE	Subsidiar-ies	Joint ventures	Associates	Key manage-ment and related parties	Others
Assets	**-**	**26 205**	**32 910**	**88**	**-**	**935**	**62 169**
Other demand deposits	-	1 115	-	-	-	-	-
Financial assets held for trading	-	228	-	-	-	-	-
Financial assets at FVOCI	-	24 322	-	-	-	-	-
Financial assets at amortised cost	-	540	32 910	88	-	935	62 169
Debt securities	-	-	-	-	-	-	-
Loans and advances	-	540	31 172		-	935	61 928
Other financial assets	-	-	1 738	88	-	-	241
Liabilities	**-**	**13 936**	**28 599**	**2 581**	**-**	**514**	**11 571**
Financial liabilities held for trading	-	1 620	-	-	-	-	-
Financial liabilities measured at amortised cost	-	12 316	28 599	2 581	-	514	11 571
Deposits	-	12 313	26 385	2 579	-	514	11 549
Other financial liabilities	-	3	2 214	2	-	-	22
Derivatives – Hedge accounting	-	-	-	-	-	-	-
2017							
Income/expenses							
Net interest income	47	480	(5 267)*	-	-	5	1 995
Net fee and commission income	29	(7)	3 222	1 316	-	4	(109)
Net gains/(losses) from financial transactions	-	(16 442)	-	-	-	-	-
Net other operating expenses	-	70	212	83	-	-	-
Administrative expenses	-	(16)	(6 925)	-	(3)	(2 890)	(219)

* Net interest income includes paid commission fees for loans provided, which are part of effective interest rate.

32. Fair value of financial assets and liabilities

According to IFRS 13 the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank measures fair values using the following fair value level hierarchy:

- **Level 1:** Quoted market price in an active market for an identical instrument,
- **Level2:** Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data,
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. Reálne hodnoty finančných aktív a finančných záväzkov obchodovaných na aktívnych trhoch sa stanovujú na základe kótovaných trhových cien. Podiely vo fondoch sa oceňujú cenou získanou od správcovskej spoločnosti.

The determination of the fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded on active markets. Shares in funds are measured at price received from asset management company.

For all other financial instruments, fair value is determined by using valuation techniques. These valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

For fair value measurement of debt financial instruments the Bank uses models based on net present value. The key estimation parameter is the discount interest rate. Determination of the discount interest rate is based on the risk free market rate,

which corresponds to the incremental maturity of particular financial instruments and on a risk premium. The risk premium is determined to be consistent with regular market practice.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed based on recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and certain investments in subsidiaries. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows from the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Basic parameters entering into the valuation model to determine the fair value of equity financial instruments are forecast economic results and equity of the company, market multiples indicators such as EBITDA, sales etc. for comparable companies, which are published by reputable companies for different sectors.

Even though these valuation techniques are considered to be appropriate and in compliance with market practice, still the estimations in discount interest rate and changes of basic assumptions in future cash flows may lead to different fair value of financial instruments.

Transfers of financial instruments between particular levels can occur only if market activity has changed.

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

The reported amounts of financial instruments at fair value analysed according to fair value levels were as follows:

€ '000	Level 1		Level 2		Level 3		Total	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
ASSETS								
Financial assets held for trading	**-**	**-**	**1 799**	**1 183**	**-**	**-**	**1 799**	**1 183**
Derivatives	-	-	1 799	1 183	-	-	1 799	1 183
Non-trading financial assets mandatorily at FVPL	**-**	**-**	**234 665**	**-**	**-**	**-**	**234 665**	**-**
Equity instruments	-	-	234 665	-	-	-	234 665	-
Financial assets at FVOCI	**322 125**	**438 752**	**65 625**	**235 394**	**112 768**	**109 126**	**500 518**	**783 272**
Equity instruments	-	-	1 934	181 524	65	65	1 999	181 589
Debt securities	322 125	438 752	63 691	53 870	112 703	109 061	498 519	601 683
Total assets	**322 125**	**438 752**	**302 089**	**236 577**	**112 768**	**109 126**	**736 982**	**784 455**

€ '000	Level 1		Level 2		Level 3		Total	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
LIABILITIES								
Financial liabilities held for trading	**-**	**-**	**469**	**5 846**	**-**	**-**	**469**	**5 846**
Derivatives	-	-	469	5 846	-	-	469	5 846
Derivatives – Hedge accounting	**-**	**-**	**5 607**	**3 738**	**-**	**-**	**5 607**	**3 738**
Total liabilities	**-**	**-**	**6 076**	**9 584**	**-**	**-**	**6 076**	**9 584**

The following table shows a reconciliation of the opening balance to the closing balance of fair values in the fair value Level 3:

€ '000	1. 1. 2018	Gains / losses in PL	Gains / losses in OCI	Purcha-ses	Maturities and sales	Transfers into Level 3	Transfers out Level 3	31. 12. 2018
Financial assets at fair value through OCI	109 126	633	3 034	26 706	(26 731)	-	-	112 768
Total	**109 126**	**633**	**3 034**	**26 706**	**(26 731)**	**-**	**-**	**112 768**

In 2017 and 2018, there were no movements among fair value levels.

The estimated fair values of the Bank's financial assets and liabilities that are not carried at fair value were as follows:

31. december 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**302 390**	**302 390**	**-**	**302 390**	**-**
Financial assets at amortised cost	**3 105 527**	**3 315 321**	**319 298**	**228 696**	**2 767 327**
Debt securities	413 507	430 425	319 298	5 992	105 135
Loans and advances	2 641 769	2 834 645	-	172 453	2 662 192
Other financial assets	50 251	50 251	-	50 251	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**3 609 647**	**3 613 051**	**-**	**3 613 051**	**-**
Deposits	3 595 201	3 598 605	-	3 598 605	-
Other financial liabilities	14 446	14 446	-	14 446	-

31. december 2017	Carrying amount	Fair value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash, cash balances at central banks and other demand deposits	**63 611**	**63 611**	**-**	**63 611**	**-**
Financial assets at amortised cost	**3 353 744**	**3 472 107**	**292 254**	**836 069**	**2 343 784**
Debt securities	390 946	421 748	292 254	21 022	108 472
Loans and advances	2 902 786	2 987 077	-	751 765	2 235 312
Other financial assets	60 012	63 282	-	63 282	-
FINANCIAL LIABILITIES					
Financial liabilities measured at amortised cost	**3 641 227**	**3 645 456**	**-**	**3 645 456**	**-**
Deposits	3 617 352	3 621 581		3 621 581	-
Other financial liabilities	23 875	23 875	-	23 875	-

33. Risk management

The ultimate body responsible for risk management is the Board of Directors. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Some responsibilities are delegated to special advisory bodies – committees.

The Bank's risk management policies are based on the Risk Management Strategy as a primary document for risk management and which is then described in the Risk Appetite document. These documents are regularly reassessed, updated and approved by the Board of Directors. The risk management process is a dynamic and constant process of identification, measurement, monitoring, control and reporting of risks within the Bank. For managing of the risks faced by the Bank there are defined appropriate limits and controls for risk monitoring and adherence to those limits.

Evaluation of key performance limits defined in the Bank's risk profile is presented to the Board of Directors on a monthly basis. Risk management policies and systems are reviewed and amended regularly to reflect changes in legislation, market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee rights and responsibilities are assigned to the Supervisory Board, who is responsible for monitoring the effectiveness of the internal control and risk management systems. Its activities cover also a review of the external auditor's independence and evaluation of the findings from the audit of the financial statements by the external auditor. They monitor the Bank's compliance with financial accounting standards. The Audit Committee is assisted in these functions by the Department of Internal control and audit.

The Bank has exposure to the following main risks:

- credit risk,
- liquidity risk,
- market risk,
- operational risk,
- settlement risk

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual obligations.

Settlement limits form part of the credit approval/limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction-specific or counterparty-specific approval of ALCO committee.

34. Credit risk

Credit risk is the risk of financial loss to the Bank if a debtor or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Bank's financial assets – primarily from loans and advances, debt securities and off-balance sheet exposures. For risk management reporting purposes, the Bank considers and consolidates all elements of its credit risk exposure (such as individual obligor default risk, management failure, and country, sector and concentration risk).

Credit risk management within the Bank is the responsibility of the Risk Management division. The Board of Directors has delegated responsibility for the oversight of credit risk in compliance with a formal competence order.

Credit risk management includes:

- Examination of the clients' creditworthiness,
- Assessing limits for clients, economically connected parties, including monitoring portfolio concentration,
- Assessing limits for counterparties, industries, countries, banks,
- Mitigation of risk by various forms of collateral,
- Continuous monitoring of the loan portfolio development and prompt decision-making to minimize possible losses.

In order to mitigate credit risk the Bank assesses the creditworthiness of the client deal using a rating tool with parameters specific to each client segment when providing the loan as well as during the life of the credit loan trade. The Bank has various rating models depending on the type of business.

When analysing the client deal the Bank uses:

- Client rating,
- Project assessment tool,
- Scoring for retail loans.

The approval process of active bank transactions includes a review of the individual applicant of the transactions, credit limit of the counterparty and collateral in order to mitigate credit risk. The Bank monitors the development of the portfolio of active bank transactions yearly, or more often if necessary, to ensure that prompt action can be taken to minimize potential risks.

Credit risk limits are generally determined on the basis of economic analysis of the client, sector, region or country. The procedure of determining individual limits is part of the Bank's internal guidelines.

To mitigate credit risk, the Bank uses the following types of limits:

- Financial involvement limits of client or economically connected entities (clients),
- Country limits,
- Limits on banks,
- Industry limits.

The Bank continuously monitors, assesses and evaluates the compliance with the limits on country maximum exposure, sector group and related parties and translates these into its activities.

The tables below summarize sector and geographical breakdown of financial assets at amortised cost, financial assets at fair value through other comprehensive income and off-balance sheet exposures (in gross amounts):

€ '000	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Central banks	**-**	**-**	**165 726**	**683 836**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	**290 309**	**260 409**	**-**	**-**	**280 682**	**386 380**	**-**	**-**	**-**	**-**
Credit institutions	**6 002**	**21 001**	**7 242**	**37 823**	**63 692**	**53 870**	**-**	**60 100**	**-**	**-**
Other financial corporations	**-**	**-**	**282 519**	**181 312**	**41 443**	**76 698**	**27 008**	**2**	**5 054**	**5 091**
Non-financial corporations	**119 602**	**109 536**	**1 196 401**	**1 239 279**	**112 702**	**84 737**	**150 769**	**171 695**	**31 315**	**21 845**
A Agriculture, forestry and fishing	-	1 019	-	475	-	-	-	-	-	-
B Mining and quarrying	-	-	-	1 829	-	-	-	-	-	-
C Manufacturing	-	-	133 436	188 273	3 015	3 074	6 755	4 736	39	107
D Electricity, gas, steam and air conditioning supply	41 811	41 073	139 843	133 987	-	-	50 064	28 055	-	-
E Water supply	-	-	41	-	-	-	-	-	-	-
F Construction	-	-	40 700	30 040	-	-	3 195	2 285	5 068	5 030
G Wholesale and retail trade	-	-	113 968	181 599	-	-	27 799	5 714	3 789	4 206
H Transport and storage	-	-	21 312	52 880	-	-	8 709	5 262	1 170	153
I Accommodation and food service activities	-	-	87 395	46 960	52 402	41 733	2 215	26	-	-
J Information and communication	-	-	13 201	60 357	-	-	3 050	3 000	4 000	-
K Financial and insurance activities	10 357	-	-	-	13 848	-	24 314	52 042	10 000	5 100
L Real estate activities	67 434	67 444	314 669	212 524	-	-	21 189	57 985	-	-
M Professional, scientific and technical activities	-	-	167 346	142 118	-	-	2 216	5 909	7 224	7 224
N Administrative and support service activities	-	-	129 753	146 927	-	-	868	1 310	-	-
O Public administration and defence, compulsory social security	-	-	-	-	-	-	-	-	-	-
P Education	-	-	44	-	-	-	-	-	-	-
Q Human health services and social work activities	-	-	22 548	16 440	-	-	51	43	25	25
R Arts, entertainment and recreation	-	-	12 027	14 277	43 437	39 930	333	5 328	-	-
S Other services	-	-	118	10 593	-	-	11	-	-	-
Households	**-**	**-**	**1 187 211**	**929 897**	**-**	**-**	**129 387**	**132 866**	**-**	**-**
Total	**415 913**	**390 946**	**2 839 099**	**3 072 147**	**498 519**	**601 685**	**307 164**	**364 663**	**36 369**	**26 936**

€ '000	Financial assets at amortised cost				FVOCI		OFF Balance sheet			
	Debt securities		Loans and advances		Debt securities		Loan commitments given		Financial guarantees given	
	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017	31. 12. 2018	31. 12. 2017
Slovak Republic	353 687	344 802	1 961 426	1 705 848	177 894	262 849	244 859	258 128	20 254	11 930
Czech Republic	41 811	41 073	488 052	1 033 481	82 606	71 236	56 874	106 518	3 838	2 691
Cyprus	-	-	204 509	184 510	-	-	2	-	-	-
Luxemburg	-	-	105 374	115 000	41 443	52 375	-	-	-	-
France	-	-	3 100	2 570	65 550	66 676	1	-	-	-
Netherlands	-	-	2 008	-	-		-		5 054	5 091
Poland	15 379	-	2	-	80 842	99 659	3		-	
Other countries	5 036	5 071	74 628	30 738	50 184	48 890	5 425	17	7 223	7 224
Total	**415 913**	**390 946**	**2 839 099**	**3 072 147**	**498 519**	**601 685**	**307 164**	**364 663**	**36 369**	**26 936**

Rating system

The Bank uses a rating system to evaluate the financial performance of the companies. The rating systems evaluate quantitative and qualitative indicators of economic activities (e.g. liquidity ratio, profitability, gearing etc.) and compare them to the subjective assessment of the client by the Bank. The Bank categorizes clients into rating levels from the best to the worst, the worst level representing the highest probability of default. The Bank has established a process of setting up the ratings and their regular updating and a control process of assigning of the rating and these are defined in the Bank's internal guidelines.

The Bank uses internal credit risk ratings that reflect its assessment of the probability of default of individual counterparties. The Bank use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for corporate exposures) is put into this rating model. This is supplemented with external data such as credit bureau scoring information on retail customers. In addition, the models enable expert judgement to be put into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The rating methods are subject to regular validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

Measurement of expected credit losses

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- **Stage 1:** A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Bank. This includes all financial instruments where no significant increase in credit risk has been idenfied from the date of initial recognition,
- **Stage 2:** If significant increase in credit risk ('SICR') since initial recognition is identified or if the information on initial credit rating is not available, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired,

- **Stage 3:** If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. The Bank has a defined remedial period for returning from Stage 3 to Stage 2 and from Stage 2 to Stage 1. Direct movement from Stage 3 to Stage 1 is not allowed.

Purchased or originated credit-impaired financial assets (' POCI') are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The Bank sets the level of significance at EUR 300 thousand (2017: EUR 166 thousand). Financial assets with exposure equal or higher than EUR 300 thousand (2017: EUR 166 thousand) are assessed individually in the staging process.

The same principles are applied also for measurement of provisions for off-balance sheet exposures arising from loan and other commitments and guarantees given.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

Significant increase in credit risk

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

I. Quantitative criteria:

The remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold.

These thresholds have been determined separately for retail and corporate portfolios, by assessing how the Lifetime PD changes prior to an instrument becoming delinquent.

The protection criterion applies and the financial asset is considered to have experienced a significant increase in credit risk when the borrower is past due with its contracted payments for more than 30 days. The Bank does not benefit from the exception of low credit risk for any financial instrument.

II. Qualitative criteria:

The Bank uses the following indicators to assess whether the SICR has occurred:

- The debtor violated the financial covenants or the contract;
- Actual or expected significant adverse change in operating results of the borrower;
- Negative information about the borrower from external sources;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;

- Actual or expected concession, restructuring or change in the repayment schedule.

The assessment of SICR of individually assessed exposures shall be carried out at the level of the counterparty on an ongoing basis. The criteria used to identify SICR are monitored and reassessed in order to assess their suitability at least once a year.

Definition of default and credit impaired assets

The Bank defines the financial asset as default as it fully complies with the definition of credit impairment when one or more events occur that have a detrimental effect on the estimated future cash flows of that financial asset.

I. Hard criteria:

- Any significant credit obligation of the borrower towards the Bank, parent company or any of its subsidiaries is more than 90 days past due;
- The Borrower has declared bankruptcy or other form of reorganization;
- The Borrower has asked the Bank for concession due to economic or contractual reasons related to the borrower's financial difficulties and a significant reduction in the quality of the loan;
- The loan was forfeited;
- Fraud.

If the Bank identifies any of hard criteria, the loan is classified as defaulted immediately.

II. Soft criteria:

- The receivable is overdue (up to 90 days);
- The Bank recognizes a specific concession to the loan agreement resulting from a significant reduction in the quality of the loan;
- Signs of impairment leading to the assumption that the borrower will not pay its credit obligations to the bank in full amount and in time without the Group doing any actions such as realization of the collateral;
- Significant impairment of main collateral;
- Failure of the debtor in another financial institution or failure of another client's loans and advances in the bank;
- Any other warning signs identified in the client monitoring and engagement process that, according to the Bank's assessment, will result in the debtor not paying his credit commitments to the Bank in full amount and in time without the bank taking steps toward loan collateral.

Soft criteria are the subject of a qualified bank assessment whether the receivable is in default.

Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information ('FLI'):

I. Individually assessed exposures

Considering the abundance and high diversity of corporate exposures, the Bank did not identify a reliable correlation between macroeconomic indicators and ECL. Using future-oriented information for individually assessed exposures would lead to unpredictable results due to a lack of reliable correlation, and the Bank therefore concluded that the use of future-oriented information was not appropriate for individually assessed exposures. Therefore, the Bank assesses the potential impacts of macroeconomic changes at the level of individual loans in their regular monitoring,

and any possible impacts are taken into account when modelling expected cash flows.

II. Portfolio-based exposures

In assessing the amount of expected loss of portfolio exposures, the Bank takes into account estimated future economic conditions. This is achieved by appropriate PD values modifications via a multiplier. The FLI setting consists of determining the values of two parameters:

- the coefficient of increase of 12-month marginal PD values,
- the number of months during which the PD will revert to the original values.

Calculation of ECL

The bank calculates the ECL on an individual or portfolio basis. Individual basis is an individual estimate of cash flows at the exposure level. In calculating the ECL on a portfolio basis, exposures are classified on the basis of common risk characteristics into a homogenous group.

I. Individual calculation:

The individual basis for calculating ECL is used for individually assessed exposures in Stage 3:

The ECL calculation is generally based on three scenarios (at least two scenarios), and each scenario is given a certain probability:

- **Contractual scenario** – sscenario based on the expectation of maturity of all contractual cash flows in time and in full amount;
- **Going concern** – scenario based on the expectation of both contractual cash flows and cash flows from collateral recovery;
- **Gone concern** – the worst scenario based on the expectation of both contractual cash flows and cash flow from collateral recovery. Compared to the Going concern scenario, the Bank expects lower cash flow values.

The ECL is subsequently calculated as the probability-weighted amount of expected cash flows from each scenario discounted by the original EIR.

II. Portfolio calculation

Portfolio ECL calculation is used for all other cases. Portfolio ECL is calculated using the following formula ECL = PD × EAD × LGD, where:

- PD: The probability of default is the likelihood that the borrower does not meet its financial obligations. PD depends on the rating and the following rules apply:
  - Stage 1: Use of 12-month PD, i.e. probability of default over the next 12 months;
  - Stage 2: PD is used over the lifetime, i.e. probability of default over the entire maturity of the exposure;
  - Stage 3: The PD is equal to 1 because the exposure is already defaulted.
- EAD: Unsecured Exposure at default;
- LGD: Loss given default means the ratio of credit loss in case of default to EAD.

A change of the LGD parameter would result in a change in the impairment allowances as follows:

LGD change	31 December 2018		31 December 2017	
	in %	€ '000	in %	€ '000
+5 %	3,99 %	7 509	+5,12 %	8 326
-5 %	-3,99 %	7 509	-5,12 %	(8 326)
+10 %	7,98 %	15 019	+10,23 %	16 653
-10 %	-7,98 %	(15 019)	-10,23 %	(16 653)

The PD and LGD values are estimated by statistical models.PD values are recalculated and recalibrated on a monthly basis, reflecting changes in ECL in individual portfolios. LGD values are recalculated and recalibrated at least once a year. Backtesting of PD and LGD is performed on annual basis.

The tables below summarize the classification of financial assets and off-balance sheet exposures (in gross amount) by credit risk ratings:

€ '000	31. 12. 2018					31. 12. 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial assets at AC - Debt securities						
Low credit risk	296 311	-	-	-	296 311	281 410
Moderate credit risk	52 168	-	-	-	52 168	109 536
High credit risk	67 434	-	-	-	67 434	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Gross amount	**415 913**	**-**	**-**	**-**	**415 913**	**390 946**
Impairment allowance	(2 406)	-	-	-	(2 406)	-
Carrying amount	**413 507**	**-**	**-**	**-**	**413 507**	**390 946**
Financial assets at AC - Loans and advances						
Low credit risk	750 453	4 087	-	-	754 540	1 015 504
Moderate credit risk	1 471 855	23 201	-	-	1 495 056	1 483 143
High credit risk	256 940	107 251	-	-	364 191	287 952
Default	-	-	200 807	-	200 807	241 286
Not rated	7 242	15 209	2 054	-	24 505	44 262
Gross amount	**2 486 490**	**149 748**	**202 861**	**-**	**2 839 099**	**3 072 147**
Impairment allowance	(23 723)	(26 723)	(146 884)	-	(197 330)	(169 361)
Carrying amount	**2 462 767**	**123 025**	**55 977**	**-**	**2 641 769**	**2 902 786**

€ '000	31. 12. 2018					31. 12. 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Financial assets at FVOCI - Debt securities						
Low credit risk	399 664	-	-	-	399 664	492 625
Medium credit risk	95 840	-	-	-	95 840	109 060
High credit risk	3 015	-	-	-	3 015	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Gross amount	**498 519**	**-**	**-**	**-**	**498 519**	**601 685**
Impairment allowance in OCI	(984)	-	-	-	(984)	-

€ '000	31. 12. 2018					31. 12. 2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Loan and other commitments given						
Low credit risk	138 056	4	-	-	138 060	114 698
Medium credit risk	145 213	2	-	-	145 215	170 607
High credit risk	9 535	8 002	-	-	17 537	55
Default	-	-	2 280	-	2 280	3 459
Not rated	3 000	1 072	-	-	4 072	80 060
Gross amount	**295 804**	**9 080**	**2 280**	**-**	**307 164**	**368 879**
Provision	**984**	**801**	**1 107**	**-**	**2 892**	**1 186**
Financial guarantees given						
Low credit risk	14 025	-	-	-	14 025	-
Medium credit risk	13 787	-	-	-	13 787	18 976
High credit risk	5 852	-	-	-	5 852	-
Default	-	-	2 262	-	2 262	2 691
Not rated	443	-	-	-	443	5 269
Gross amount	**34 107**	**-**	**2 262**	**-**	**36 369**	**26 936**
Provision	**254**	**-**	**394**	**-**	**648**	**-**

Collateral

The Bank generally requires collateral in order to mitigate its credit risk from exposures on financial assets. The following collateral types are accepted:

- Cash;
- Guarantees issued by banks, governments or reputable third parties;
- Securities;
- Receivables;
- Commercial and residential real estates;
- Tangible assets.

Estimates of fair values are based on the value of collateral assessed at the time before executing the deal and are reassessed on a regular basis. Generally, collateral is not held on exposures against credit institutions, except when securities are held as part of reverse repurchase and securities lending activity.

An estimate of the fair value of received collateral is shown below (including received collateral from reverse repurchase agreements). Received collateral value is disclosed up to the gross carrying amount of the asset:

€ '000	31. 12. 2018	31. 12. 2017
Real-estates	571 217	376 220
Secutiries	394 439	817 141
Cash	333	342
Other	134 338	98 834
Total	**1 100 327**	**1 292 537**

The Bank's assessment of the net realisable value of the collateral is based on independent expert appraisals, which are reviewed by the Bank specialists, or internal evaluations prepared by the Bank. The net realisable value of collateral is derived from this value using a correction coefficient that is the result of the current market situation and reflects the Bank's ability to realize the collateral in case of involuntary sale for a price that is possibly lower than the market price. The Bank, at least annually, updates the values of the collateral and the correction coefficient.

Net value of the assets acquired by taking possession of the collateral was as follows:

€ '000	31. 12. 2018	31. 12. 2017
Net value of assets obtained by taking possession of collateral	-	-

Recovery of delinquent receivables

The Bank takes the necessary steps in judicial and non-judicial process to obtain the maximum recovery from defaulted receivables. In case of default receivables, the activities of taking possession of collateral and representing the Bank in bankruptcy and restructuring proceedings are realised separately.

In the retail segment, the recovery process for overdue receivables is defined and centrally operated by workflow system. The system provides complex evidence of delinquent receivables, it uses segmented strategy of recovery and it also processes numerous task flows, automated collection tasks. The Bank also uses the outsourcing services of collection companies.

35. Liquidity risk

Liquidity risk arises from the financing of the Bank's activities and the management of its positions. It includes financing the Bank's assets with instruments of appropriate maturity and the Bank's ability to dispose of its assets for acceptable prices within acceptable time periods. The Bank promotes a conservative and prudent approach to liquidity risk management.

The Bank has a system of limits and indicators consisting of the following elements:

- Short-term liquidity management is performed by monitoring the liabilities and receivables due, and fulfilling the compulsory minimum reserves,
- Long-term liquidity management is also performed using the method of liquidity gap analysis (the classification of assets and liabilities based on their maturity into different maturity ranges). Liquidity gap analysis uses Liquidity at Risk deposit stability model as well as other behavioural assumptions.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank finances its assets mostly from primary sources. In addition, the Bank has open credit lines from several financial institutions and is therefore also able to finance its assets from loans and deposits from other banks. Due to its structure of assets the Bank has at its disposal sufficient amount of bonds that are, if necessary, acceptable for acquiring additional resources through refinancing operations organized by the European Central Bank.

The Bank monitors the liquidity profile of its financial assets and liabilities and details about other projected cash flows arising from projected future business. Based on such information the Bank maintains a portfolio of short-term liquid assets, made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and monthly liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The Bank also has a contingency plan and crisis communication plan that describes the principles and procedures of management in extraordinary conditions and secures the availability of financial back-up sources. All liquidity policies and procedures are subject to review and approval by Assets and Liabilities Committee ('ALCO'). Reports on the liquidity position of the Bank are produced daily. A summary report, including any exceptions and remedial action taken, is submitted to ALCO at least once a month.

Exposure to liquidity risk

The key measures used by the Bank for managing liquidity risk are:

- Primary liquidity ratio and Liquidity coverage ratio - tracking short-term liquidity under stress scenarios;
- Net stable financing ratio - structural funding monitoring;
- Modified liquidity gap indicator - management of structural medium- to long-term liquidity;
- Analysis of survival time in stress conditions.

Cash flows expected by the Bank for certain assets and liabilities may differ significantly from their contractual flows. For example, for deposits from clients (current accounts, term deposits without notice period) the Bank expects that they will remain in the Bank over a longer period, or, more precisely, their value will increase over time as a result of receiving new funds. Receivables from clients may be also prematurely repaid or prolonged.

The liquidity coverage ratio is defined by Regulation of the European Parliament and of the Council no. 575/2013 as the ratio of the sum of the liquid assets to the sum of the net cash outflows. The ratio must not fall below 1. The ratio was as follows:

	31. 12. 2018	31. 12. 2017
End of the period	2,28	2,98
Average for the period	2,58	3,51
Maximum for the period	3,27	4,06
Minimum for the period	1,81	2,98

The following table provides an overview of the distribution of assets and liabilities according to their contractual maturity as current (with a maturity up to 1 year) and non-current (with a maturity over one year).

€ '000	31 December 2018			31 December 2017		
	Current	Non -current	Total	Current	Non -current	Total
Assets						
Cash, cash balances at central banks and other demand deposits	302 390	-	302 390	63 611	-	63 611
Financial assets held for trading	1 799	-	1 799	1 183	-	1 183
Non-trading financial assets mandatorily at fair value through profit or loss	-	234 665	234 665	-	-	-
Financial assets at fair value through other comprehensive income	101 245	399 273	500 518	136 519	646 753	783 272
Financial assets at amortised cost	717 361	2 388 166	3 105 527	1 234 288	2 119 456	3 353 744
Debt securities	91 633	321 874	413 507	16 017	374 929	390 946
Loans and advances	575 477	2 066 292	2 641 769	1 158 259	1 744 527	2 902 786
Other financial assets	50 251	-	50 251	60 012	-	60 012
Fair value changes of the hedged items in portfolio hedge of interest rate risk	869	-	869	-	-	-
Investments in subsidiaries, joint ventures and associates	-	47 637	47 637	-	41 812	41 812
Tangible assets	-	9 614	9 614	-	9 741	9 741
Intangible assets	-	27 252	27 252	-	23 886	23 886
Current tax assets	462	-	462	3 104	-	3 104
Deferred tax assets	-	17 409	17 409	-	11 693	11 693
Other assets	19 888	-	19 888	18 751	-	18 751
Total assets	**1 144 014**	**3 124 016**	**4 268 030**	**1 457 456**	**2 853 341**	**4 310 797**
Liabilities						
Financial liabilities held for trading	108	361	469	5 846	-	5 846
Financial liabilities measured at amortised cost	3 328 939	280 708	3 609 647	3 431 465	209 762	3 641 227
Deposits	3 314 493	280 708	3 595 201	3 407 590	209 762	3 617 352
Other financial liabilities	14 446	-	14 446	23 875		23 875
Derivatives – Hedge accounting	-	5 607	5 607	-	3 738	3 738
Provisions	4 071	-	4 071	1 186	-	1 186
Current tax liabilities	2 775	-	2 775	752	-	752
Other liabilities	11 627	-	11 627	15 314	-	15 314
Total liabilities	**3 347 520**	**286 676**	**3 634 196**	**3 454 563**	**213 500**	**3 668 063**

The Bank monitors the residual maturity based on the expected recovery or expected maturity of the individual assets and liabilities. Historical experience shows that short-term liabilities are usually prolonged.

The following tables show the residual maturity of non-derivative and off-balance sheet financial liabilities. Undiscounted cash flows in the table are presented based on their earliest contractual maturities. The expected cash flows may be different from the analysis below.

€ '000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2018						
Financial liabilities measured at amortised cost	2 988 804	347 660	242 422	45 112	3 623 998	3 609 647
Deposits	2 974 358	347 660	242 422	45 112	3 609 552	3 595 201
Other financial liabilities	14 446	-	-	-	14 446	14 446
Total	**2 988 804**	**347 660**	**242 422**	**45 112**	**3 623 998**	**3 609 647**
31 December 2017						
Financial liabilities measured at AC	2 919 304	519 350	182 723	25 396	3 646 773	3 641 227
Deposits	2 895 429	519 350	182 723	25 396	3 622 898	3 617 352
Other financial liabilities	23 875	-	-	-	23 875	23 875
Total	**2 919 304**	**519 350**	**182 723**	**25 396**	**3 646 773**	**3 641 227**

€ '000	Less than 3 months	3 months to 1 year	1-5 years	5 years and more	Contractual cash flow total	Total carrying amount
31 December 2018						
Loan and other commitments given	307 164	-	-	-	307 164	307 164
Financial guarantees given	6 053	7 425	5 254	17 637	36 369	36 369
Total	**313 217**	**7 425**	**5 254**	**17 637**	**343 533**	**343 533**
31 December 2017						
Loan and other commitments given	364 663	-	4 216	-	368 879	368 879
Financial guarantees given	150	6 755	12 778	7 253	26 936	26 936
Total	**364 813**	**6 755**	**16 994**	**7 253**	**395 815**	**395 815**

36. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank separates its exposure to market risk between the trading and non-trading portfolios. Trading portfolios include proprietary position-taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the ALCO. The members of the ALCO Committee are responsible for the development of detailed market risk management policies.

Management of market risks

Limits, indicators and methods of equity risk management are defined in accordance with the principles described in the Market Risk Management Strategy. In managing market risk, the Bank uses the following limits, indicators and methods for identifying, measuring and monitoring market risk:

- Open positions in individual financial instruments,
- Value at Risk,
- Expected shortfall,
- Basis point value,
- Credit spread point value,
- Analysis of interest rate gap,
- Capital at Risk / Change of economic value of capital,
- Earnings at Risk / Change of net interest income,
- Stop loss limits for trading book,
- Stress testing,
- VaR back-testing.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence for a one day holding period. The VaR model used is based mainly on historical simulations. Taking account of market data from the previous years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A holding period assumes that it is possible to or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 % confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR. To mitigate this shortage the Group uses the ratio Expected shortfall through which monitors potential loss beyond the set confidence interval.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature. To mitigate this shortage, the Bank uses the Stressed VaR indicator, which takes into account historical scenarios with the greatest negative impact.

Daily reports of utilization of VaR limits are submitted to members of ALCO Committee and departments responsible for risk position management. Information on market risks development is regularly submitted to ALCO.

A summary of the VaR position:

€ '000	31. 12. 2018	Average	Maximum	Minimum
VaR trading book	4	12	58	3
VaR banking book	913	1 245	1 507	135
VaR total	913	1 265	1 529	134
Out of which interest rate risk	829	971	1 267	36
Out of which credit spread risk	749	1 113	1 399	749
Out of which foreign exchange risk	7	12	58	3

€ '000	31. 12. 2017	Average	Maximum	Minimum
VaR trading book	2	11	43	1
VaR banking book	1 450	1 651	1 886	1 405
VaR total	1 450	1 652	1 885	1 405
Out of which interest rate risk	1 040	1 111	1 298	927
Out of which credit spread risk	1 398	1 415	1 612	1 255
Out of which foreign exchange risk	2	10	43	1

Interest rate risk

The main source of the Bank's interest rate risk results from revaluation risk, which is due to timing differences in maturity dates (fixed rate positions) and in revaluation (variable rate positions) of banking assets and liabilities and positions in commitments, contingencies and derivative financial instruments.

Other sources of interest rate risk are:

- Yield curve risk – risk of changes in the yield curve due to the fact that a change in interest rates on the financial market will occur in different extents at different periods of time for interest-sensitive financial instruments.
- Different interest base risk - reference rates, to which active and passive transactions are attached, are different and do not move simultaneously.
- Risk from provisioning resulting from the decrease of interest sensitive exposure with increasing volume of impairment loss allowances. Reducing exposure affects the Bank's interest sensitivity based on a short or long position.
- Option risk arising from potential embedded options in financial instruments in the portfolio of the Bank allowing early withdrawals and repayments by counterparties and subsequent deviation from their contractual maturities.

On the assets side of the statement of financial position, the Bank manages its interest rate risk mainly by providing a majority of corporate loans with variable rates. The Bank continuously uses asset-liability management in its interest risk management. When purchasing debt securities, the current interest position of the Bank is taken into account, which then serves as a basis for purchase of fixed or variable debt securities. The Bank uses interest swaps to hedge interest rates debt securities classified within FVOCI financial assets.

The priorities of the Bank for interest rate risk management of liabilities comprise:

- Stability of deposits, especially over longer time periods.
- Fast and flexible reactions to significant changes in inter-bank interest rates through adjustments to interest rates on deposit products.
- Continuously evaluating interest rate levels offered to clients compared to competitors and actual and expected development of interest rates on the local market.
- Managing the structure of liabilities in compliance with the expected development of money market rates in order to optimize interest revenues and minimize interest rate risk.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management Division in its day-to-day monitoring activities. Setting the interest rates for banking products is under responsibility of the ALCO Committee.

Sensitivity of economic value of the capital due to movements in interest rates:

	2018	2017
End of the period	(49 365)	(53 195)
Average for the period	(51 891)	(49 855)
Maximum for the period	(55 548)	(53 647)
Minimum for the period	(45 609)	(43 829)

The Bank's Economic Value of capital represents the difference between the fair value of the interest rate sensitive assets recorded in the bank book and the fair value of the interest rate sensitive liabilities recorded in the bank book. Interest rate sensitive assets and liabilities are assets and liabilities for which fair value is variable depending on changes in market interest rates. Particular assets and liabilities are divided into re-pricing gaps based on their contractual re-pricing period, volatility of interest margins (for selected liability products) or roll forward (for assets and liabilities where it is not possible to use statistical models). In case the asset or the liability does not bear any interest risk, it is assigned a one day maturity.

Changes in the Bank's Economic Value reflect the impact of a parallel interest shock on the value of interest sensitive assets and liabilities of the Bank. The scenario of parallel decrease in rates does not take into account the decrease of interest rates below 0%, which results in a minimal change in the economic value of the Bank's capital. It should be emphasized that this measure highlights the effect of a shift in interest curves on the present structure of assets and liabilities, and excludes assumptions of future changes in the structure of the balance sheet.

Share price risk

Share price risk is the risk of movements in the prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of the Bank's share price risk is speculative and strategic positions held in shares and share certificates.

When investing in equity instruments, the Bank:

- Follows an investment strategy which is updated on a regular basis,
- Has a preference for publicly traded stocks,
- Monitors limits to minimize share price risk,
- Performs a risk analysis, which usually includes forecasts of the development of the share price, various models and scenarios for the development of external and internal factors with an impact on the statement of profit or loss, asset concentration and the adequacy of own resources.

Share price risk is expressed above as part of VaR ratio.

Foreign exchange risk

The Bank is exposed to foreign exchange risk when trading in foreign currency for its own account as well as for its clients. The Bank assumes a foreign exchange risk if the assets and liabilities denominated in foreign currencies that are not in the same amount, i.e. the bank has unsecured foreign exchange positions. The Bank reduces its foreign exchange risk through limits on its unsecured foreign exchange positions and keeps them according to its size and business activities at an acceptable level. The main currencies in which the Bank holds significant positions are CZK and USD. The amount of foreign exchange risk is shown above through the VaR indicator.

37. Operational risk

Operational risk is the risk of loss, including the damage caused by the Bank's processes, to the Bank by inappropriate or incorrect procedures, human factor failure, and failure of used systems and from external factors other than credit, market and liquidity risks. A part of the operational risk is legal risk arising from unenforceable contracted receivables, unsuccessful legal cases or verdicts with negative impact on the Bank and compliance risk. Operational risk arises from all of the Bank's operations and is faced by all business entities.

The Bank continuously aims to improve implemented process of operational risk identification, usage of key risk indicators, self-evaluation procedures, planning of unforeseeable events and aims to secure business continuity and manage operational risk of the Bank on a consolidated basis.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management in each division. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

Internal audit performs audits and inspections in accordance with the Statute of internal control and internal audit and with the plan of audit activities for the year, approved by the Supervisory Board. Results of audits and inspections performed by internal audit are discussed with the management of the department to which they relate. Reports from the audits and controls are then submitted to the Board of Directors and the Supervisory Board (which also carries out activities of the Audit Committee).

Legal risk

Legal risk represents a risk of loss arising mainly from unenforceable contracts, threats of unsuccessful legal cases or verdicts with negative impact on the Bank Legal risk management is the responsibility of the Legal Services department.

Compliance risk

The Bank, in the management of compliance risk, is focused mainly on:

- Managing the risk of money laundering and terrorist financing;
- Risk of legal sanctions and penalties from regulators;
- Loss of the Bank's reputation which may be suffered as a result of a failure to comply with the requirements of generally applicable laws, legal standards, guidelines and standards related to banking activities.

Risks related to outsourcing

Outsourcing activities present a separate group of operational risks. Outsourcing involves the long-term performance of activities by a third party, which support the Bank's activities and are carried out on a contractual basis in order to increase the efficiency of the Bank's activities.

Risk management relating to outsourcing is part of the overall bank risk management. It is in the responsibility of the Board of Directors and includes:

- Managing strategy for the risks associated with outsourcing, which is approved by the Board of Directors, as well as other particular internal directives relating to outsourcing, security crisis plans for individual outsourced activities, or plans of the Bank when ceasing outsourced activities;
- Examination of the quality of service providers before and during the outsourcing;
- Regular inspections of performance of outsourcing companies by Department of Internal Control and Internal Audit;
- Minimising of the risk related to outsourcing when extraordinary events occur.

38. Capital management

In implementing current capital requirements, the Bank is required to maintain a prescribed ratio of total capital to total risk-weighted assets and a ratio of Tier I capital to total risk-weighted assets.

The Bank uses the standardized approach to credit risk, standardized method for credit valuation adjustment, the simplified approach to the trading book risks and standardized approach to operational risk in accordance with The Regulation of the European Parliament and the EU Council no. 575/2013 (Capital Requirement Regulation or CRR).

Banking operations are categorized in either a banking book or a trading book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and contingent liabilities.

Adequacy of Tier I capital and own Tier I capital is expressed as the ratio between the forms of capital to total risk-weighted assets of the bank. Tier I capital is the sum of own Tier I capital (CET1) and additional Tier I capital (AT1). Since the Bank does not own AT1 capital then the entire volume of Tier I capital of the Bank consists of just CET1 capital, and therefore there is no difference between Tier I capital adequacy and own Tier I capital adequacy, respectively.

The Bank has complied with all externally imposed capital requirements throughout the year.

The Bank's position of own funds according to the Capital Requirement Regulation is displayed in the following table:

€ '000	31. 12. 2018	31. 12. 2017
Tier I Capital	**587 491**	**568 471**
Share capital and share premium	367 043	367 043
Reserve funds and other funds created from profit	49 949	45 159
Selected components of accumulated other comprehensive income	7 957	12 645
Profit or loss of previous years	158 490	170 000
Intangible assets	(27 253)	(23 886)
Additional valuation adjustments	(790)	(2 490)
Other transitional adjustments to CET1 Capital	32 095	-
Tier II Capital	**8 000**	**5 958**
Subordinated debt	8 000	5 958
Regulatory capital total	**595 491**	**574 429**

The table below summarizes requirements on own funds in accordance with CRR:

€ '000	31. 12. 2018	31. 12. 2017
Capital required to cover:		
Credit risk	248 670	230 351
Credit value adjustment risk	111	58
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	1 253	4
Operational risk	26 693	31 532
Total capital requirements	**276 727**	**261 945**
Capital ratios		
Total capital level as a percentage of total risk weighted assets	17,22 %	17,54 %
Tier I capital as a percentage of total risk weighted assets	16,98 %	17,36 %
Common Equity Tier I capital as a percentage of total risk weighted assets	16,98 %	17,36 %

Under IFRS 9 transition, the Bank has decided to apply gradual impact reflection to capital adequacy, by layering the initial impact (Article 473a of the CRR with the exception of paragraph 3), the impact of which is presented in the following table:

€ '000	31. 12. 2018	31. 12. 2017
Available capital (amounts)		
Common Equity Tier 1 (CET1) capital	587 491	n/a
Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements were not applied	555 396	n/a
Tier 1 capital	587 491	n/a
Tier 1 capital as if IFRS 9 transitional arrangements were not applied	555 396	n/a
Total capital	595 491	n/a
Total capital as if IFRS 9 transitional arrangements were not applied	568 798	n/a
Risk-weighted assets (amounts)		
Risk-weighted assets	3 459 087	n/a
Risk-weighted assets as if IFRS 9 transitional arrangements were not applied	3 421 546	n/a
Capital ratio		
Common Equity Tier 1 capital (as a percentage of risk exposure amount)	16,98 %	n/a
Common Equity Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	16,23 %	n/a
Tier 1 capital (as a percentage of risk exposure amount)	16,98 %	n/a
Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	16,23 %	n/a
Total capital (as a percentage of risk exposure amount)	17,22 %	n/a
Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied	16,62 %	n/a

39. Information on events occurring between the balance sheet date and the date of preparation of financial statements

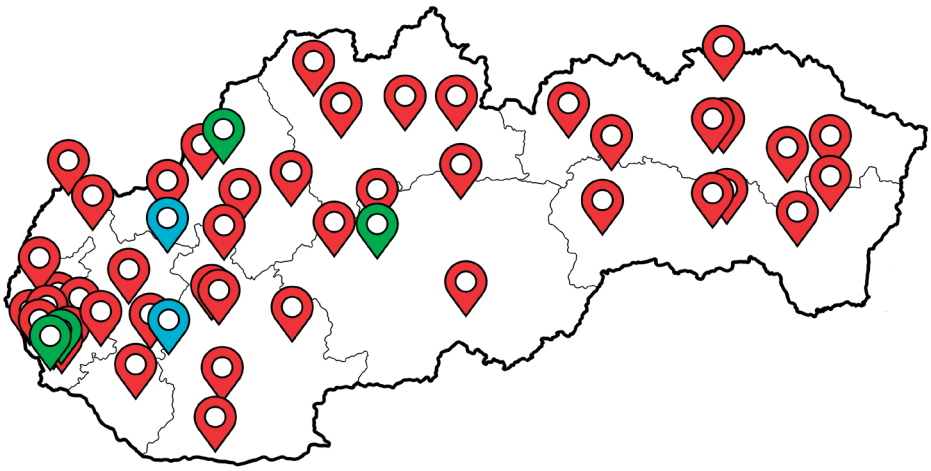
Po dátume zostavenia účtovnej závierky nenastali žiadne významné udalosti, ktoré by vyžadovali úpravu alebo zverejnenie v tejto účtovnej závierke.

10. Branch network

No.	Branch	Address	Postal Code
1	BA – Karlova Ves	Karloveská 34	842 64
2	BA – Nám. SNP	Nám. SNP 35	811 01
3	BA – Polus	Vajnorská 100	831 04
4	BA - River Park	Dvořákovo nábrežie 10	811 02
5	BA - Saratov	Saratovská 9	841 02
6	BA - Tomášikova	Tomášikova 21	821 01
7	BA – Twin City	Mlynské Nivy 14	821 09
8	BA – Vlast. nám.	Vlastenecké námestie č.4	851 01
9	Bánovce nad Bebravou	Námestie Ľudovíta Štúra 8/8B	957 01
10	Banská Bystrica	Dolná 62	974 01
11	Bardejov	Hviezdoslavova 3	085 01
12	Brezno	Námestie M. R. Štefánika 7	977 01
13	Dubnica nad Váhom	Nám. Matice slovenskej 35	018 41
14	Dunajská Streda	Bacsákova ul.	929 01
15	Galanta	sídlisko Jas č.5 (OC JASPARK)	924 01
16	Humenné	Nám. Slobody 3	066 01
17	Komárno	Mederčská 4987/4	945 01
18	Košice 1	Toryská 3	040 11
19	Košice 2	Štúrova 1 (OD Dargov)	040 01
20	Levice	P.O. Hviezdoslava 2/A	934 01
21	Liptovský Mikuláš	Ulica 1.mája 41	031 01
22	Lučenec	T.G. Masaryka 19	984 01
23	Malacky	Zámocká 8	901 01
24	Martin	Andreja Kmeťa 5397/23	036 01
25	Michalovce	ul. kpt. Nálepku 26	071 01
26	Nitra 1	Štefánikova trieda 65	949 01
27	Nitra 2	Sládkovičova 1	949 01
28	Nové Mesto nad Váhom	Hviezdoslavova 19	915 01
29	Nové Zámky	Komárňanská 2	940 02
30	Pezinok	Moyzesova 4/B	902 01
31	Piešťany	Andreja Hlinku 46	921 01
32	Poprad	Vajanského 71	058 01
33	Prešov	Hlavná 54	080 01

34	Prešov 2	Arm. generála Svobodu 25	080 01
35	Prievidza	Bojnická cesta 15	971 01
36	Rožňava	Janka Kráľa 4	048 01
37	Ružomberok	Podhora 55	034 01
38	Senec	Lichnerova 44	903 01
39	Senica	Námestie oslobodenia 9/21	905 01
40	Skalica	Potočná 20	909 01
41	Spišská Nová Ves	Letná 51	052 01
42	Šaľa	Nám. Sv. Juraja 2244	927 01
43	Topoľčany	Námestie M. R. Štefánika 21	955 01
44	Trebišov	M. R. Štefánika 52	075 01
45	Trenčín	Nám. sv. Anny 23	911 01
46	Trnava	Hlavná ulica 33	917 01
47	Vranov nad Topľou	Námestie Slobody 5	093 01
48	Zvolen	Námestie SNP 19	960 01
49	Žiar nad Hronom	Nám. Matice slovenskej 2820/24	965 01
50	Žilina	Na priekope 19	012 03

Zoznam pobočiek k 31. 12. 2018.



existujúce pobočky relokované pobočky v roku 2018 nové pobočky v roku 2018

Rok 2018	
Nové pobočky	Šaľa Piešťany
Relokácie	BA – River Park BA – Odborárske námestie do Polusu Dubnica nad Váhom Zvolen
Zatvorenie	BA – Dlhé diely BA - Rača

poštová
banka