ANNUAL REPORT 2016

poštová banka

Beneficial to everyone

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1. ADDRESS BY THE MANAGING DIRECTOR

Esteemed Shareholders, Business Partners, and Colleagues,

Poštová banka has a year full of intensive preparations for its new course behind it. The rebranding carried out at the beginning of 2017 was not merely a visual change, but also the preparation for a modern bank with a long-term and meaningful business model. It is aimed at opening the bank toward new target groups, attracting new active clients, and thus maintaining its position among the top five banks in Slovakia in terms of the balance sheet amount. Preparations for this road accompanied us throughout last year. We set up systems that considerably simplified processes across the entire institution, thanks to which, among other things, we are able to introduce new, innovative products. Some of these products were already included in our portfolio last year, and we will gradually present many others, and very interesting ones, this year. The preparation for the transformation of the bank not only costs a lot of effort, but has also been reflected in increased expenses related to this „springboard" to a new Poštová banka. The rebranding of Poštová banka, particularly at post offices, will continue in 2018 as well, because in addition to 48 branches, we also have more than 1,500 external units at post offices. Therefore, we reckon that these changes, internal settings, and the attracting of new clients will be reflected in a short-term decrease in profit, which will propel us toward new beginnings. What we also have to reckon with are changes in the banking environment and legislation. The past year was in the spirit of a new PSD 2 Directive being under preparation, which will largely influence the functioning of banks and related cooperation with fintech companies next year. Poštová banka responds to the growing trend of the importance of big data. Its importance is growing rapidly. Most companies in the world believe that a lack of cooperation with fintech companies will destroy their competitiveness, with a half of world corporations implementing or having already implemented big data technologies. In addition, more than 20 percent of companies are planning to implement them within a year. Poštová banka does not perceive fintechs as a threat, but instead as an opportunity, which is why we are already cooperating and establishing cooperation with several fintech companies at the present time.

We are also happy about the successes of our subsidiaries. Prvá penzijná správcovská spoločnosť [First Pension Management Company] achieved a market share of 12.5% with the total net amount of assets exceeding 910 million euros. This represents an increase by more than 157 million euros compared to the previous year. At the same time, the **KRÁTKODOBÝ DLHOPISOVÝ o.p.f. KORUNA** [short-term bond fund] took first place among short-term investment funds in the Fincentrum & Forbes – Investment of the Year 2016 competition. In cooperation with Poštová banka, they introduced a new product - PRÉMIOVÝ **VKLAD** [Premium Deposit] to the market, thanks to which clients could invest their money in the best-selling **NÁŠ PRVÝ REALITNÝ o.p.f.** fund [Our First Real Estate Fund] and deposit their finances in the TERMÍNOVANÝ **VKLAD** [Term Deposit] at the same time. This product turned out to be very successful, as clients invested more than 50 million euros, with 49% of deposits coming from new clients.

Dôchodková správcovská spoločnosť Poštovej banky [Pension Management Company of Poštová banka] was also successful, with the number of its savers growing to 96,464. Following the merger of the BENEFIT fund with the STABILITA fund, the latter being the best-performing fund over a long time, the Pension Management Company has been administering three funds since December 2016. A success was also scored by the index fund PERSPEKTÍVA, which has a unique strategy, thanks to which a lower risk and a higher performance can be achieved than with competitors.

Poštová poisťovňa [Postal Insurance Company] continued its intensive growth in 2016. The number of insurance contracts in its portfolio exceeded 150,000. New production grew by 7% year-on-year. This growth has translated into a growth in gross premiums written, as well as into an increase in profit. In 2016, Poštová poisťovňa also began to extensively modify its internal processes, acceptance of risk, and portfolio of products sold by the insurance company, which reduced its costs to 27%, among other things.

Employees of Poštová banka and its subsidiaries were primarily responsible for the successful year, for which they justly deserve a great thanks. I would also like to thank for the support from our shareholders who gave us their trust with regards to the major changes under preparation. We have an interesting year ahead of us, in which we will gradually bring about new products and services. We believe that these processes will appeal to both existing and new clients and we will thus be useful for all.

Ing. Andrej Zaťko

2. GENERAL INFORMATION ABOUT THE COMPANY

Legal 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 secondary services pursuant to the Act on Securities, to the extent referred to in Section (b) of this point, and investment into securities in 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. Factoring;
12. Safekeeping of items;
13. Renting of safe deposit boxes;
14. Provision of bank information;
15. Activities as a depository;
16. Handling of bank notes, coins, commemorative bank notes and commemorative coins;
17. Issuance and administration of electronic money;
18. Factoring according to special legislation as an independent financial agent in the sector of insurance and reinsurance;
19. Factoring 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) participating certificates and securities issued by foreign 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) participating certificates and securities issued by foreign 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) participating certificates and securities issued by foreign 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) participating certificates and securities issued by foreign 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) participating certificates and securities issued by foreign entities of collective investment;
6. Placement of financial instruments without fixed commitment in relation to the following financial instruments:
   a) negotiable securities;
   b) participating certificates and securities issued by foreign entities of collective investment;
7. Custody and administration of financial instruments on the client's account, including holder administration, 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) participating certificates and securities issued by foreign entities of collective investment;
8. Provision of credits and loans to investors to facilitate the realization of transactions involving one or several financial instruments, in cases where the credit or loan provider 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: EUR 366,305,193
Paid-up share capital: EUR 366,305,193

3. COMPANY STRUCTURE

SUPERVISORY BOARD

Mario Hoffmann	– chairman
Ing. Vladimír Ohlídal, CSc.	– member
Ing. Jozef Tkáč	– deputy chairman
Jozef Kiss	– member, elected with the effective date of 17 June 2016
Ing. Mgr. Martin Varga	– member, elected with the effective date of 5 October 2016
Mgr. Jozef Salaj	– member until 25 May 2016
Ing. Mgr. Tomáš Drucker	– member until 25 May 2016

BOARD OF DIRECTORS

Ing. Andrej Zaťko – Chairman of the Board of Directors

Graduated from the Department of Economic Informatics at the University of Economics in Bratislava, where he specialized in information technology. He has been active in the banking and financial sector for almost 20 years. He started his career in mutual funds and later worked in the area of asset management for private clients. In 2006, he was at the birth of private banking of J&T BANKA, which he built practically from scratch. From 2008, he strategically coordinated and was responsible for the implementation of the private banking strategy for Slovakia, the Czech Republic, Switzerland, and Russia, as well as for mutual coordination among these markets. From 2009, he was director of the Trade Division of the Slovak branch of J&T Banka, where he was responsible for the overall business strategy and marketing of the bank in the Slovak market. He was also on the Board of Directors of J&T Bank Switzerland LtD. and in 2011 became a member of the Board of Directors of J&T BANKA, a.s. (Czech Republic). From November 2012, he held the position of director of J&T BANKA, a.s., branch of a foreign bank in the Slovak Republic. On 12 August 2015, he became Chairman of the Board of Directors and Managing Director of Poštová banka.

Ing. Peter Hajko – member of the Board of Directors

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. as a sub-branch head and, in 2000–2015, for Tatra banka, a.s., where he held the positions of branch director, regional branch network director responsible for sales, servicing, and service quality for retail clients, Sales Department director responsible for the management of sales and the quality of services of the branch network of Tatra banka, a.s., and director of the Sales Department - Corporate Centers responsible for the management of sales and the quality of services for small and medium-sized enterprises and clients in the Middle Market segment. The last position that he held at Tatra banka, a.s. was that of director of the regional network of branches in the Nitra region. He joined Poštová banka in October 2015, assuming the position of director of the Retail Banking Division. He was elected as a member of the Poštová banka Board of Directors on 3 December 2015. He is responsible for the area of retail and corporate banking.

Ing. Daniela Pápaiová – member of the Board of Directors

Graduated from the Department of Business Management at the University of Economics in Bratislava. In 1997–2009, she was primarily involved in the insurance sector, working for the companies ING Nationale - Nederlanden poisťovňa, a.s., Aegon Životná poisťovňa, a.s., and Aegon, d.s.s., a.s., as well as for Poisťovňa Poštovej banky, a. s. as a member of the Board of Directors. From May 2009 until the end of 2010, she held the position of member of the Board of Directors in the company Credium Slovakia, a.s. She joined Poštová banka in 2011 as director of the Finance Division. She has been a member of the Poštová banka Board of Directors since 26 July 2012, currently responsible for risk management, ALM, and finances.

JUDr. Ján Nosko – member of the Board of Directors until 22 July 2016

Graduated from the Department of Law at Matej Bel University in Banská Bystrica. He has worked for Poštová banka since 2010, when he assumed the position of head of the Department of Credit Claims and later became director of the Division of Legal Services and Compliance. He later became deputy managing director for internal services. He was elected as a member of the Poštová banka Board of Directors on 10 April 2014. He is responsible for the corporate banking area. He resigned as a member of the Poštová banka Board of Directors as of 22 July 2016.

Ing. Slavomír Varcholík – member of the Board of Directors until 12 December 2016

Graduated from the Department of Trade at the University of Economics in Bratislava. In 1995–2012, he worked for the companies Ernst & Young Audit, k.s., Schindler výťahy a eskalátory [Elevators and Escalators], a.s., GlobtelNet, a.s., and Orange Slovensko, a.s. He has worked for Poštová banka since 2012. He first held the position of director of the Finance Division and later became deputy managing director for finances. He was a member of the Poštová banka Board of Directors from 12 January 2015, responsible for finances. He resigned as a member of the Poštová banka Board of Directors as of 12 December 2016.

3. COMPANY STRUCTURE

Structure of shareholders as of 31 December 2016

		COUNTRY	IDENTIFICATION NUMBER (IČO)	NUMBER OF SHARES	PARTICIPATION IN %	VALUE PER SHARE	SHARE CAPITAL IN EUR
J&T FINANCE GROUP SE	Pobřežní 297/14 186 00 Praha 8	Czech Republic	27 592 502	213,288	64.45	1,107	236,109,816
PBI, a.s.	Pobřežní 297/14, Karlín 186 00 Praha 8	Czech Republic	03 633 527	112,506	34.00	1,107	124,544,142
Slovenská pošta, a.s.	Partizánska cesta 9 975 99 Banská Bystrica	Slovak Republic	36 631 124	4,918	1.49	1,107	5,444,226
Ministerstvo dopravy, výstavby a regionálneho rozvoja Slovenskej republiky [Ministry of Transport, Construction, and Regional Development of the Slovak Republic]	Námestie slobody 6 810 05 Bratislava	Slovak Republic	30 416 094	100	0.03	1,107	110,700
UNIQA Versicherungen AG	Untere Donaustraße 21 1029 Wien	Austia	63197m	87	0.03	1,107	96,309
				330,899	100.00		366,305,193

COMPANY NAME	NUMBER OF SHARES HELD BY POŠTOVÁ BANKA	POŠTOVÁ BANKA PARTICIPATION IN SHARE CAPITAL IN %	POŠTOVÁ BANKA PARTICIPATION IN SHARE CAPITAL IN EUR
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.	10	100	50,000.00
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
PB IT, a. s. (in liquidation)	10	100	50,000.00

4. MAIN EVENTS IN 2016

5. CORPORATE SOCIAL RESPONSIBILITY

6. PERSONNEL POLICY

7. DESCRIPTION OF THE MACROECONOMIC AND MICROECONOMIC COMPETITIVE ENVIRONMENT

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4. MAIN EVENTS IN 2016

JANUARY

We launched a new communication chat
Poštová banka became even more accessible to its clients thanks a new online chat on the Poštová banka website.

New fund administered by the First Pension Management Company
A new fund – **USA TOP FOND o.p.f.** – PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s. invests accumulated monetary funds in this mutual fund on the basis of active access to various types of assets.

Award for the First Pension Management Company
The **NÁŠ PRVÝ REALITNÝ o.p.f.** fund [Our First Real Estate Fund] took second place in the Gold Coin [Zlatá minca] competition for 2015.

The **KRÁTKODOBÝ DLHOPISOVÝ o.p.f. KORUNA** fund [Short-Term Bond Fund] took second place in the Money Market Funds and Short-Term Investment Funds category in the Investment of the Year competition.

APRIL

We launched the BIG **PLUS loyalty rewards program**
At the beginning of the spring, we brought about an integral concept of a loyalty rewards program called VEĽKÉ **PLUS** [Big Plus] for clients of Poštová banka, within which we award loyal clients of the bank for actively using our products.

First Pension Management Company had the best-selling project in the first quarter of the year
The project of the **NÁŠ PRVÝ REALITNÝ o.p.f.** – Petržalka City B fund was the best-selling project in the first quarter of 2016.

JUNE

We launched a new concept of selling Poštová banka products via financial service counters at Slovenská pošta branches
In selected branches of Slovenská pošta [Slovak Post], a new concept of sale via financial service counters was launched, with a Slovenská pošta employee specialized in selling products of the Poštová banka Group.

Migration of accounts
A total of 10 types of old accounts and service packages were migrated into three basic packages (DOBRÝ **ÚČET** [Good Account], DOBRÝ **ÚČET SENIOR** [Good Account Senior], and DOBRÝ **ÚČET JUNIOR** [Good Account Junior]).

We launched a new product - PREMIUM **DEPOSIT for our clients**
Poštová banka launched a joint product with Prvá penzijná, PRÉMIOVÝ **VKLAD** [Premium Deposit]. It combines the advantages of TERMÍNOVANÝ **VKLAD** [Term Deposit] with a guaranteed interest rate and investing in the best-selling mutual fund **NÁŠ PRVÝ REALITNÝ o.p.f.** with the potential of deriving revenue from investing in a fund.

SEPTEMBER

We introduced SME packages for corporate entities
Poštová banka introduced 3 new packages of services for corporate entities (Výhodný, Komfortný a Prémiový [Advantageous, Comfortable, and Premium] service packages).

OCTOBER

We began to sell loans to small and medium-sized businesses
Poštová banka launched the sale of campaign loans to small and medium-sized businesses. The sale of pre-approved loans to corporate entities brings the potential of growth in the segment of small and medium-sized businesses.

Another branch of Poštová banka
A new branch of Poštová banka was opened in Liptovský Mikuláš.

NOVEMBER

We introduced the Christmas Loan product and received awards
At the end of the year, our clients had an opportunity to obtain a Christmas Loan [Vianočná pôžička] with an extremely advantageous interest rate. In addition, the Loan without Interest [Pôžička bez úroku] competition took place, in which a total of 61 clients obtained this loan. The Christmas Loan from Poštová banka received the Ideal Loan [Ideálna pôžička] award for this type of loan from the independent financial portal Finančná hitparáda..

DECEMBER

We introduced a shortened telephone number of the Call Center
By introducing a new short code *6500, we made it easier for clients to call the Call Center of Poštová banka.

Two new branches were opened
New branches of Poštová banka were opened in Senica and Galanta.

New design for five branches
Five branch offices were completely redesigned during 2016. All of them look modern and fresh.

We modified our Schedule of Charges
We simplified our Schedule of Charges for individuals and made it more transparent, reducing it from the original 16 to 5 pages.

Merger of pension funds administered by the Pension Management Company
In Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s., the BENEFIT mixed non-guaranteed pension fund (being wound up) was merged with the pension fund STABILITA - guaranteed bond pension fund.

5. CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility forms an inseparable part of the Poštová banka philosophy and strategy. Within the framework of Corporate Social Responsibility, we supported several organizations and events, both through our foundation and with direct support.

We have been the general partner of the **Naive Theater of Radošiná** since 2013. We are proud that we moved the entire theater to its new premises, which we had remodeled for the needs of a modern and functional theater. Thanks to this, the new premises offer comfort not only to actors, but also the audience, without which the theater could not function.

Poštová banka is a long-term 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 to actively spend their free time.

In 2016, the POŠTOVÁ BANKA FOUNDATION aimed the beams of its lighthouse towards providing help in various areas. It helped socially disadvantaged families, provided grants to several civic associations and nongovernmental organizations, and supported its long-term projects in the area of sport and education. Our goal is to help where it is meaningful, which is what we endeavored to do over the past year as well.

In the area of sports, we continued the tradition of supporting three large sports activities – the **Sport Family for All**, which makes it possible for children from orphanages and socially-disadvantaged families to do canoeing. Thanks to support from our Foundation, children can take part in regular training sessions and training camps and participate in domestic and international competitions, where they score brilliant successes. Another important sports project under the auspices of the Foundation is the **Swimming Club SPK Bratislava**, which has been among the top in Slovakia for a long time. This is evidenced by a large amount of medals and their excellent performance in competitions.

The third project is the **Summer Swimming Camp of Martina Moravcová**, which took place for the seventh time. Thanks to our Foundation, 36 children can take part in the camp free of charge, on the basis of their swimming skills, in addition to 6 children from a disadvantaged social background. Under the supervision of several trainers and, first and foremost, former excellent swimmer Martina Moravcová, almost 200 young swimming hopefuls perfected their swimming technique last year.

Education is another important area where the Foundation is active. In cooperation with the Slovak National Museum, we are carrying out the successful project **School in the Museum**. Financial support is primarily intended for carrying out interactive educational programs for children and youth in museums in Slovakia. In 2016, we supported educational workshops, for example, in the museums Červený Kameň, Bojnice, Betliar, and Martin.

In the same year, we also embraced financial education of children and translated it into an amazing cooperation with the Children's Museum. The result is **an interactive exhibition** called **Save and Spend Wisely**, which aims to explain basic financial terms, mechanisms, and the patterns and regularities of the world of finance and assets in a playful and engaging way.

In addition to supporting sports and education, the Foundation also brought generations together in 2016, namely through an open **grant program** called **Idea for 3 Generations**. There was a chance to obtain financial resources for projects aimed at bringing together children/youth, active adults, and seniors to carry out meaningful activities helping communities. We supported 16 interesting projects in various areas, for example, environmental protection, support for sports, art, and traditional crafts, as well as revitalization of public spaces.

In addition to grant programs, we provided one-off financial grants to organizations whose activities we found appealing and interesting. They include, for example, the To Children for Life civic association, the Foundation of the Slovak Olympic Committee, the Minimum civic association (the Children Love Swimming project), the Sun on the Road civic association, and the Union of the Blind and Visually Impaired in Slovakia.

We also involved our employees in helping others. They prove every year that they enjoy giving help and, precisely thanks to them, we managed to carry out our traditional activities, such as the collection of clothes for the ROSA Social Services Home, Easter and Christmas charity markets for nonprofit organizations, and the popular Christmas activity called the Tree of Fulfilled Wishes, which aims to provide Christmas presents for children from socially disadvantaged families. Our employees are not only helping us to help others, but also inspire us and extend our field of activity, namely via the MAJÁK [Lighthouse] employee grant program. Thanks to this program, employees can obtain financial resources serving the public good, to which they dedicate themselves in their spare time. In 2016, we supported 9 employee projects.

For the Foundation, the year 2016 was another year full of challenges, resolutions, and the endeavor to help where it was necessary and meaningful. Thanks to our supporters, fans, and colleagues, we were able to carry out all of the aforementioned activities and grants. This would not have been possible without their help. Thank you for helping together with us.

6. PERSONNEL POLICY

As of 31 December 2016, the number of employees was 1,009, of whom 69% were women and 31% were men. Poštová banka is an organization with an average age of 37 years, with women accounting for as much as 52% of the total number of managers.

Our goal is a professional approach to the selection of high-quality people and a positive perception of the brand. We carry out regular measurements of the satisfaction of candidates and managers with the selection process, and with a high success rate compared to the rest of the market. For candidates, Poštová banka represents professionalism, the possibility of self-assertion, and an opportunity for an interesting job with good prospects.

Managers are supported in building and leading successful teams by HR business partners, who provide comprehensive consulting to managers and employees on HR issues. In 2016, it was our priority to focus on supporting business distribution channels of the Poštová banka Group.

We prepared and carried out several changes to support the performance of distribution channels – a new method of searching and selecting candidates, which also supported the shortening of the entire selection process, in addition to a new concept of adaptation and orientation training (in both product and business skills) and a new concept of the development of traders focused on connecting the needs of clients with product specialties of the bank.

In 2016, we paid a lot of attention to the creation of new corporate values of the Poštová banka Group as one of the basic building blocks of a new corporate culture. We created new values – professionalism, humanity, simplicity, accessibility, and fairness – together with our employees, who elected ambassadors from among themselves to promote these values. The ambassadors support the presence of these values in the bank's everyday life and carry out many different and interesting activities for all (for example, participation in the Devín – Bratislava run, the month of health, voluntary work, and so forth).

Another very interesting project was the commencement of the systematic building of the Poštová banka Group brand as an employer.

In 2016, for the first time in the history of the bank, we opened an annual Talent Management Program for branches, whose primary goal is to prepare an adequate number of managers to take over the management of branches. At the same time, we carried out activities within the framework of the second year of the Talent Program for the headquarters of the bank, which is now a stable HR project.

In the area of support for external talent, we continued the sixth year of the very successful Trainee Program for fifth-year university students in 2016. As in previous years, after the completion of the program, we hired several young people who participated in the program to work for the bank and its subsidiaries on a permanent basis.

This year, too, we carried out activities supporting the training and development of bank employees. We continued to use financial resources invested in training in a targeted and effective manner. We continued the development of soft, managerial, and business skills through a team of internal instructors, using the so-called blended learning (a combination of several forms of training online/offline/on and off the job).

In the area of professional training, we continued to use targeted consulting provided by training specialists in selecting external professional activities, with bank employees taking a total of 6,027 hours of training focused on improving their professional expertise.

We also streamlined our internal functioning – especially by implementing a new system to manage the selection of employees, in addition to the implementation of changes in the iTutor system supporting performance management and training management.

In 2016, we changed the system of remuneration of retail network employees by reinforcing the fixed part of the salary. At the end of the year, we applied the same change to the area of corporate business and linked it to career growth. The bank modified basic salaries of employees in accordance with the Collective Agreement.

In the area of benefits provided to our employees, we introduced several novelties, for example, a half day off on birthday and leave during spring and summer holidays. For first-graders, we prepared a surprise called My First-Grade Bag containing school supplies. The program of employee benefits called Cafeteria was extended to new providers in the area of **health, regeneration, relax, sport, social and cultural events, and education**. In 2016, employees received contributions totaling 163,000 euros from the approved social fund of the bank. The Health, Sport, and Further Education category also includes preventive and above-standard medical examinations. Employees utilized benefits in the Health category in the amount of almost 44% of total funds allocated to employee benefits. The aim of Poštová banka's policy of benefits is to reinforce the perception of the value of benefits as part of total rewards, make it easier to attract qualified and high-performing employees on the market, and build employee pride in their company.

Within the personnel-payroll system, in 2016, too, we endeavored to improve services for managers, as well as those for employees of the financial group. Within the „attendance project", we introduced an automatic recording of arrivals, movements, and departures via sensors in the River Park building. In the area of employment documents, we simplified procedures for employees by providing pre-filled forms for all documents related to the start of employment.

7. DESCRIPTION OF THE MACROECONOMIC AND MICROECONOMIC COMPETITIVE ENVIRONMENT

The year 2016 brought about a favorable economic development to Slovakia. Although the annual GDP growth moderately slowed down compared to 2015, the Slovak economy achieved positive results. The situation in the labor market developed hand-in-hand with the stronger economic growth, with the unemployment rate in Slovakia declining to below 9%. We witnessed a decrease in consumer prices throughout the year, as the inflation rate went negative in the individual months, thanks to which real wages grew.

The annual growth in Slovakia's GDP reached 3.3% over the past year. The Slovak economy was primarily driven by foreign demand last year. The export performance of the Slovak economy was growing, as the economies of our trade partners were also doing well. Regarding domestic demand, the Slovak economy grew primarily thanks to a higher household consumption supported by the favorable situation in the labor market and growing wages. On the other hand, GDP growth was negatively affected by investment activities, which slowed down last year following the strong growth in 2015, when the remaining EU funds were utilized. A strong decline in public investments resulting from a lower amount of EU funds was therefore expected.

Similarly to 2015, Slovakia was in deflation in 2016 as well. Prices of consumer goods and services dropped by 0.5% on average in 2016, both according to the national consumer price index (CPI) and the harmonized consumer price index (HICP). According to the national CPI index, the largest increase in prices, by 2.2%, was recorded in hotels, cafes, and restaurants. On the other hand, a drop in prices, by as much as 2.8% year-on-year, was seen in foodstuffs, which was caused by the development of prices of agricultural commodities on world markets and a reduction in VAT on selected foodstuffs from January. The price level in Slovakia also declined over the past year thanks to lower prices in transport owing to the continuously low prices of oil, in addition to lower prices of housing and utilities. Foodstuffs and housing represent the largest cost items of family budgets of Slovak households.

The lines of the unemployed at labor offices became shorter during 2016. The favorable economic development was translated into the creation of new jobs and a decline in unemployment during the year. The registered unemployment rate decreased from 10.39% in January to 8.76% in December, which translated at the end of the year into almost 238,000 unemployed ready to immediately take up a job. However, the total number of unemployed was more than 276,000.

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 50% than had been planned when the budget was drawn up. The state budget closed the year 2016 with a deficit of 0.980 billion euros, with the annual deficit decreasing by almost 50% year-on-year. The state budget income saw a decrease by 12% year-on-year, but expenditures went down even more, by 16%.

The entire euro zone struggled with declining or stagnating prices of goods and services in shops during the course of 2016. This did not go without a response from the European Central Bank (ECB), which decided to further ease its monetary policy at its session in March. In an effort to increase inflation and move it closer to its inflation target (around 2%), the ECB reduced the prime interest rate in the euro zone by 5 basis points to 0.00%. The ECB also decided to increase the amount of monthly purchases of assets to 80 billion euros. In summer months, the ECB took further action, adopting the so-called non-standard monetary policy measures. Within its program of the purchase of assets, the ECB began to buy assets of the business sector as well and launched a new series of targeted long-term refinancing operations (TLTRO II).

The euro exchange rate against the dollar fluctuated within a broader band of approximately 1.03 EUR/USD to 1.16 EUR/USD during the course of 2016. In summary, however, the euro only lost a little more than 3 percent of its value over the past year. At the beginning of last year, the euro-dollar exchange rate started at the level of 1.0862 EUR/USD. At the beginning of May, the European currency reached its maximum level against its US counterpart, climbing to over1.1600 EUR/USD. However, the common currency of the euro zone did not keep this level for a long time and gradually decreased to 1.1200 EUR/USD, around which it oscillated until the beginning of October. Uncertainty and concerns about the presidential election in the United States prevailed on the markets during that time. The fear of financial markets was primarily caused by the possible victory of controversial Republican Donald Trump with his unpredictable and unintelligible policies. However, it came as a great surprise that Trump's victory supported the dollar, which came close to its maximum levels against the euro at the end of the year. The gap between the ECB monetary policy and that of the US Federal Reserve System widened again last year. This is because the ECB decreased its main refinancing rate in March, whereas the US central bank increased its interest rate at the end of last year. Consequently, the common currency ended the past year at the level of 1.0517 EUR/USD. During the course of 2016, the euro weakened against the Hungarian forint, but strengthened against the Polish zloty. In essence, the euro stagnated against the Czech koruna, as the Czech central bank (ČNB) maintained the koruna exchange rate close to 27 korunas per euro.

As of 31 December 2016, a total of 13 banks having their registered offices in the territory of the Slovak Republic (including two banks without foreign capital participation and 11 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 2016, the total number of banks increased compared to 2015, with the number of branches of foreign banks increasing by one. Over the course of the same year, the number of branches and other organizational units in the banking sector increased by two to 1,293. By the end of 2016, 20,863 employees were working in the Slovak banking sector, which was 4.6% more than at the end of 2015. According to preliminary results, total assets recorded in the banking sector amounted to 71.4 billion euros last year. Deposits from citizens presented at the end of 2016 amounted to 31.65 billion euros, growing by 8.6% year-on-year. Loans to citizens increased by 13.9%, to 28.2 billion euros, compared to 2015. According to preliminary data, the banking sector generated a net profit of more than 750 million euros.

8. REPORT ON BUSINESS ACTIVITIES

9. FINANCIAL STATEMENTS

10. BRANCH NETWORK

ANNUAL REPORT 2016

8. REPORT ON BUSINESS ACTIVITIES

In 2016, the bank generated a net profit after tax in the amount of 49.3 million euros, which represents a decrease of 9.3% compared to 2015.

As of 31 December 2016, the balance sheet amount of the bank reached 4.3 billion euros, growing by 2.0% compared to the previous year.

A year-on-year increase was also recorded in the in the capital adequacy ratio Tier I, as a percentage of risk-weighted assets, which grew from 17.04% to 17.37%.

ASSETS

The largest part of bank assets consisted of loans and receivables. As of 31 December 2016, interest-bearing assets amounted to 3,897.7 million euros. The share of interest-bearing assets in total assets stands at 91.6%.

Loans and receivables increased by 0.7% compared to 2015, reaching a value of 2,265.5 million euros after taking the created value adjustments into consideration as of 31 December 2016. Loans and receivables accounted for 53.2% of total bank assets. Consumer loans provided (principal, without value adjustments) amounted to 707.5 million euros, of which the „Dobrá pôžička" (Good Loan) product accounted for 168.5 million euros and „Lepšia splátka" (Better Installment) amounted to 428.0 million euros. The amount of consumer loans rose by 9.2% year-on-year.

As of 31 December 2016, the bank had in its portfolio available-for-sale financial assets in the amount of 829.5 million euros and financial assets held to maturity in the amount of 349.7 million euros (including coupon accruals). Available-for-sale financial assets and financial assets held to maturity account for 27.7% of total bank assets. From the total volume of financial assets available for sale and held to maturity, government bonds represent 861.8 million euros, other bonds 144.0 million euros, and ownership interests (shares, participating certificates and other ownership interests) 173.3 million euros.

As of 31 December 2016, accounts and deposits in central banks and other financial institutions amounted to 674.0 million euros, representing 15.8% of total bank assets. Over the course of 2016, the bank deposited the required minimum reserves in the National Bank of Slovakia (NBS) in compliance with the NBS Decrees. As of 31 December 2016, the volume of the required minimum reserves represented 359.1 million euros. The bank deposited its temporarily available funds in banks of issue in the form of short-term deposits, among others, with the term deposit in the Czech National Bank amounting to 267.2 million euros as of 31 December 2016. At the end of 2016, deposits in other financial institutions amounted to 47.6 million euros.

Cash assets amounted to 23.7 million euros as of 31 December 2016.

As of 31 December 2016, tangible and intangible assets of the bank amounted to 27.7 million euros, representing 0.7% of total assets.

LIABILITIES AND EQUITY

Primary resources from clients amounted to 3,596.0 million euros as of 31 December 2016, accounting for 84.5% of the total balance sheet amount. Balances of term deposits form the largest part of primary resources, amounting to 1,708.8 million euros (principal). The most significant growth was recorded in balances of personal accounts, growing by 88.0 million euros (principal) year-on-year to 835.4 million euros (principal) at the end of the year, which represents a 11.8% growth.

Deposits in passbooks amounted to 685.8 million euros (principal), growing by 2.0% year-on-year.

More than 51,000 new personal accounts were established in 2016.

Secondary resources (deposits from financial institutions) amounted to 4.2 million euros as of 31 December 2016.

Equity grew by 6.2 million euros compared to the previous year, amounting to 607.1 million euros as of 31 December 2016. Of this amount, share capital of the bank amounts to 366.3 million euros, funds created from profit account for 40.2 million euros, retained earnings from previous years are at 140.4 million euros, and the financial result of the current year totals 49.3 million euros.

SELECTED INDICATORS

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

INDICATOR	31 DECEMBER 2016	31 DECEMBER 2015
Interest-bearing assets/Assets	91.6%	91.2%
Loans and receivables (net)/Assets	53.2%	53.9%
Government bonds/Assets	20.2%	24.6%
Central banks + Other financial institutions/Assets	15.8%	12.7%
Interest-bearing liabilities/Liabilities and equity	84.9%	84.8%
ROA	1.2%	1.3%
ROE	8.1%	9.0%

Central banks: NBS – National bank of Slovakia, ČNB - Czech National Bank
ROA – Return on assets (year-end balance) calculated as *Net profit after tax/Assets*
ROE – Return on equity (year-end balance) calculated as *Net profit after tax/Equity*

9. FINANCIAL STATEMENTS

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 2016

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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 the Board of Directors of Poštová banka, a. s.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Poštová banka, a. s. ("the Bank"), which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, 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 ("IFRS EU").

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 Financial Statements* section. We are independent of the Bank in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audits and the amendments to the 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 financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT

Impairment of loans and advances to customers

The carrying amount of loans as at 31 December 2016: EUR 2,015,531 thousand; impairment loss recognised in 2016: EUR 50,515 thousand; total impairment loss as at 31 December 2016: EUR 170,464 thousand.

Refer to Note 3 (l) (Significant accounting policies) and Note 10 (Loans and advances)

Key audit matter	*Our response*
Impairment allowances represent management's best estimate of the losses incurred within the retail and corporate loan portfolios at the reporting date. We focused on this area as the determination of impairment allowances requires the Statutory body to make complex estimates and use judgement over both the timing of impairment recognition and the amount of any such impairment. Loans and advances include corporate as well as retail exposures. For corporate loans and advances individually exceeding EUR 166 thousand, the impairment assessment is made on an individual basis, based on the knowledge of each individual borrower and often an estimation of the value of the related collateral. For retail loans and advances and corporate loans and advances individually below EUR 166 thousand, impairment is determined by modelling techniques for portfolios comprising of a larger number of smaller loans and advances. The Bank routinely makes adjustments to the key model parameters whose assessment also requires increased attention in our audit.	Our audit procedures included, among others: • Assessing and testing of the design, implementation and operating effectiveness of selected controls over the approval and monitoring of loans and advances, including, but not limited to, those relating to the identification of loss events, appropriateness of classification to delinquency buckets and calculation of the related impairment. For individually calculated impairment: • Selecting a sample of loans and advances, with focus on those with the greatest potential impact on the financial statements due to their magnitude and/or risk characteristics, such as watch-listed and forborne exposures; • For the sample selected, critically assessing, by reference to the underlying loan files and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers as at 31 December 2016; and • Where impairment triggers were identified, challenging the Bank's cash flow projections and key assumptions used by reference to our knowledge of the industry and the counterparty. We also assessed the reasonableness of the collateral valuation;

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For collective impairment:

- Testing the underlying impairment models, including model approval, back-testing and validation processes and, using our internal IT specialists, the completeness and accuracy of underlying data for the calculation and validation of the key parameters such as the probability of default, loss given default and loss emergence period;

- Critically assessing the rationale for the changes made to the model parameters in 2016, by reference to our understanding of the business, including the outcome of the back-testing, current economic trends and market practices;

Overall, critically assessing the reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in the total gross exposure and the non-performing loans provision coverage, by bench-marking them against publicly available industry data.

INDEPENDENT AUDITORS' REPORT

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Valuation of financial instruments held at fair value

The carrying amount of financial assets held at fair value as at 31 December 2016: EUR 830,172 thousand; the carrying amount of financial liabilities held at fair value as at 31 December 2016: EUR 5,340 thousand change in fair value recorded through profit and loss for the year ended 31 December 2016: EUR (1,084) thousand; change in fair value recorded through other comprehensive income for the year ended 31 December 2016: EUR (6,691).

Refer to Note 3 (j), 3 (k) and 3 (o) (Significant accounting policies), Note 7 (Financial assets and liabilities held for trading), Note 8 (Financial assets available for sale) and Note 11 (Hedging derivatives).

Key audit matter	*Our response*
Valuation of the Bank's financial instruments held at fair value was a key area of audit focus due, primarily, to the significance of such instruments on the balance sheet. For the majority of the bonds and shares in the Bank's portfolio, the respective fair values are based on quoted prices of identical instruments, while valuation techniques using market observable inputs were applied for the remaining bonds and shares, and for investments in funds. Due to the magnitude of the amounts involved, as well as the complexity involved and judgment required in measuring some of these instruments, their valuation was a key area of focus during our audit. Also, there is 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 risk; • Independently assessing the financial instruments' fair value hierarchy levels, considering underlying market activity, and comparing these levels to the hierarchy levels assigned by the Bank; • Testing the Bank's market-based valuations of financial instruments by comparing these amounts to independently sourced publicly available quoted prices; • For more judgemental valuations, based on inputs other than quoted prices, evaluating the assumptions, methodologies and models used by the Bank, and also, on a sample basis, performing an independent valuation, using our internal 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.

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IT systems and controls over financial reporting

Key audit matter	*Our response*
We identified IT systems and controls over financial reporting as an area of focus as the Bank's financial accounting and reporting is heavily dependent on complex systems, including legacy systems, a number of different interfaces between the technical and accounting systems are used by the Bank, and a risk exists that automated accounting procedures and related IT dependent manual controls would not be designed and operating effectively.	Our procedures included, among others: • With assistance of our internal IT specialists, updating our understanding of the Bank's IT environment and the framework of governance over the IT organisation, including the understanding of the controls over program development and changes, access to programs and data and IT operations; • Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting; • Testing of the selected aspects of the security of the IT systems, including access management and segregation of duties; and • Where relevant, assessing whether compensating controls were effective in mitigating deficiencies identified either by the Bank or by us independently.

Responsibilities of the Statutory body and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, the Statutory body 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 Statutory body 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.

9. FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 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 Company's internal control.

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

- Conclude on the appropriateness of the Statutory body'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 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 financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with 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 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 Annual Report

The Statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements does not cover other information in the Annual Report.

In connection with our audit of the 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 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, 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 financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2016 is consistent with the 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 accounting entity and its environment that we have acquired during the course of the audit of the financial statements.

20 March 2017
Bratislava, Slovak Republic

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

Responsible auditor:
Ing. Ľuboš Vančo
License SKAU No. 745

9. FINANCIAL STATEMENTS

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	NOTES	31.12.2016 € '000	31.12.2015 € '000 *Restated*
Assets			
Cash and balances at the central banks	6	659,214	474,381
Financial assets held for trading	7	712	2,106
Financial assets available for sale	8	829,460	851,229
Financial assets held to maturity	9	349,663	461,098
Loans and advances	10	2,265,523	2,249,442
Loans and advances to financial institutions		47,634	87,864
Loans and advances to customers		2,015,531	1,932,002
Debt securities		202,358	229,576
Hedging derivatives	11	-	1,242
Investments in subsidiaries, jointly controlled entity and associate	12	41,539	39,541
Tangible assets	13	10,047	11,717
Intangible assets	14	17,653	15,195
Deferred tax assets	15	13,876	13,705
Tax receivables		202	3,452
Other assets	16	68,127	50,870
Total assets		**4,256,016**	**4,173,978**
Liabilities			
Financial liabilities held for trading	7	277	84
Financial liabilities measured at amortized cost	17	3,608,272	3,540,300
Financial liabilities to financial institutions		4,242	3,930
Financial liabilities to customers		3,596,017	3,528,357
Subordinated debt		8,013	8,013
Hedging derivatives	11	5,063	312
Tax liabilities		3,862	-
Provisions	18	1,455	1,960
Other liabilities	19	29,995	30,473
Total liabilities		**3,648,924**	**3,573,129**
Equity	20	607,092	600,849
Total equity		**607,092**	**600,849**
Total liabilities and equity		**4,256,016**	**4,173,978**

These separate financial statements, which include the notes on pages 42 - 118, were approved by the Board of Directors on 20 March 2017.

Chairman of the Board of Directors
Andrej Zaťko

Member of the Board of Directors
Daniela Pápaiová

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2016

STATEMENT OF PROFIT OR LOSS	NOTES	2016 € '000	2015 € '000 *Restated*
Net interest income	22	163,694	185,152
Net fee and commission income	23	21,212	21,995
Dividend income	24	12,072	7,694
Net trading income	25	7,124	12,309
Net other operating expenses	26	(7,822)	(8,512)
Administrative expenses	27	(67,729)	(64,504)
Depreciation and amortization	28	(6,803)	(6,596)
Operating profit before impairment losses and provisions		**121,748**	**147,538**
Impairment losses for financial assets not valued at fair value through profit and loss	8, 10	(50,551)	(69,751)
Impairment losses for investments in subsidiaries, jointly controlled entity and associate	12	-	(986)
Impairment losses for non-financial assets	13, 16	(2,680)	(1,025)
Release / (creation) of provisions	18	505	(1,894)
Profit before tax		**69,022**	**73,882**
Income tax	30	(19,768)	(19,589)
Profit after tax		**49,254**	**54,293**

OTHER COMPREHENSIVE INCOME	2016 € '000	2015 € '000 *Restated*
Profit after tax	**49,254**	**54,293**
Items that can be reclassified to profit or loss		
Revaluation of financial assets available for sale and hedging derivatives	(6,691)	12,832
Deferred tax related to items, which can be reclassified	1,608	(2,823)
Total	**(5,083)**	**10,009**
Translation difference from foreign operations	(19)	361
Other comprehensive income after tax	**(5,102)**	**10,370**
Total comprehensive income for the year	**44,152**	**64,663**
Profit after tax for the accounting period (in € '000)	49,254	54,293
Number of issued shares	330,899	330,899
Earnings per share (in €)	**149**	**164**

The notes on pages 42 - 118 are an integral part of these separate financial statements.

9. FINANCIAL STATEMENTS

SEPARATE STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER 2016

	2016 € '000	2015 € '000 *Restated*
Profit before tax	**69,022**	**73,882**
Adjustments:		
Depreciation and amortization	6,803	6,596
Impairment los for financial assets not valued at fair value through profit and loss	50,551	69,751
Impairment losses for investments in subsidiaries, jointly controlled entity and associate	-	986
Impairment losses for non-financial assets	2,680	1,025
Creation/(Release) of provisions	(505)	1,894
Loss/(profit) from sale of tangible and intangible assets	246	(67)
Net interest income	(163,694)	(185,152)
Dividend income	(12,072)	(7,694)
Cash flows from/(used in) operating activities before changes in working capital, received and paid interest and income tax paid	**(46,969)**	**(38,779)**
Cash flows from operating activities		
(Increase)/decrease in operating assets:		
Change in financial assets held for trading	1,394	(506)
Change in balances at the central banks	(124,814)	(204,500)
Change in financial assets available for sale	8,987	(39,170)
Change in loans and advances to financial institutions	(5,258)	-
Change in loans and advances to customers	(140,535)	96,105
Change in debt securities	22,440	(33,647)
Change in hedging derivatives	1 305	51
Change in other assets	(21,472)	2,594
Increase/(decrease) in operating liabilities:		
Change in financial liabilities held for trading	193	46
Change in liabilities to financial institutions	315	(9,545)
Change in liabilities to customers	63,997	(43,257)
Change in hedging liabilities	(1,304)	-
Change in other liabilities	(1,229)	5,986
Income tax paid	(11,220)	(33,578)
Cash flows from operating activities from interest:		
Interest received	197,803	212,633
Interest paid	(19,978)	(39,788)
Net cash flows from/(used in) operating activities	**(76,345)**	**(125,355)**

The notes on pages 42 - 118 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER 2016 - CONTINUED

	2016 € '000	2015 € '000 *Restated*
Cash flows from investing activities		
Purchase of tangible and intangible assets	(8,698)	(7,019)
Proceeds from sale of tangible and intangible assets	99	67
Purchase of financial assets held to maturity	(6,000)	(22,853)
Proceeds from financial assets held to maturity	114,359	133,305
Interest received from financial assets held to maturity	16,388	38,635
Dividends received from subsidiaries, jointly controlled entity and associate	11,938	7,694
Acquisition of subsidiaries, jointly controlled entity and associate	(2,133)	-
Proceeds from sale of subsidiaries, jointly controlled entity and associate	3,345	2,720
Net cash flows from/(used in) investing activities	**129,298**	**152,549**
Cash flows from financing activities		
Dividends paid to shareholders	(37,995)	(30,109)
Interest paid for subordinated debt	(427)	(428)
Net cash flows from/(used in) financing activities	**(38,422)**	**(30,537)**
Net (decrease)/increase in cash and cash equivalents	**14,531**	**(3,343)**
Cash and cash equivalents at the beginning of the year (Note 6)	**327,925**	**331,268**
Cash and cash equivalents at the end of the year (Note 6)	**342,456**	**327,925**

The notes on pages 42 - 118 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2016

	SHARE CAPITAL € '000	SHARE PREMIUM € '000	LEGAL RESERVE FUND € '000	REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE AND HEDGING DERIVATIVES € '000	RETAINED EARNINGS € '000	TRANSLATION RESERVE € '000	TOTAL € '000
As at 1 January 2016	**366,305**	**738**	**34,805**	**15,810**	**183,785**	**(594)**	**600,849**
Total comprehensive income							
Profit after tax	-	-	-	-	49,254	-	49,254
Other comprehensive income after tax							
Net revaluation of financial assets available for sale and hedging derivatives, after tax	-	-	-	(5,083)	-	-	(5,083)
Translation difference from foreign operations	-	-	-	-	-	(19)	(19)
Total comprehensive income	**-**	**-**	**-**	**(5,083)**	**49,254**	**(19)**	**44,152**
Transaction with owners, recorded directly in equity							
Transfer to legal reserve fund	-	-	5,429	-	(5,429)	-	-
Dividends to shareholders	-	-	-	-	(38,005)	-	(38,005)
Total transactions with owners	**-**	**-**	**5,429**	**-**	**(43,434)**	**-**	**(38,005)**
Other transactions							
Acquisition of part of business of PB IT, a.s. in liquidation	-	-	-	-	96	-	96
As at 31 December 2016	**366,305**	**738**	**40,234**	**10,727**	**189,701**	**(613)**	**607,092**

The notes on pages 42-118 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2015

	SHARE CAPITAL € '000	SHARE PREMIUM € '000	LEGAL RESERVE FUND € '000	REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE AND HEDGING DERIVATIVES € '000	RETAINED EARNINGS € '000	TRANSLATION RESERVE € '000	TOTAL € '000
As at 1 January 2015	**366,305**	**738**	**30,622**	**5,801**	**163,760**	**(955)**	**566,271**
Total comprehensive income							
Profit after tax	-	-	-	-	54,293	-	54,293
Other comprehensive income after tax							
Net revaluation of financial assets available for sale and hedging derivatives, after tax	-	-	-	10,009	-	-	10,009
Translation difference from foreign operations	-	-	-	-	-	361	361
Total comprehensive income	**-**	**-**	**-**	**10,009**	**54,293**	**361**	**64,663**
Transaction with owners, recorded directly in equity							
Transfer to legal reserve fund	-	-	4,183	-	(4,183)	-	-
Dividends to shareholders	-	-	-	-	(30,117)	-	(30,117)
Other	-	-	-	-	32	-	32
Total transactions with owners	**-**	**-**	**4,183**	**-**	**(34,268)**	**-**	**(30,085)**
As at 31 December 2015	**366,305**	**738**	**34,805**	**15,810**	**183,785**	**(594)**	**600,849**

The notes on pages 42-118 are an integral part of these separate financial statements.

9. FINANCIAL STATEMENTS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2016

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'), tax ('DIČ') and value added tax ('IČ DPH') numbers are as follows:

IČO: 31340890
DIČ: 2020294221
IČ DPH: SK7020000680
The Bank is registered as VAT member of Poštová banka Group.

Principal activities

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 through 48 branches located in Banská Bystrica, Bánovce nad Bebravou, Bardejov, Bratislava, Brezno, Dubnica nad Váhom, Dunajská Streda, Galanta, Humenné, Komárno, Košice, Levice, Liptovský Mikuláš, Lučenec, Malacky, Martin, Michalovce, Nitra, Nové Mesto nad Váhom, Nové Zámky, Pezinok, Poprad, Prešov, Prievidza, Rožňava, Senica, Skalica, Spišská Nová Ves, Topoľčany, Trebišov, Trenčín, Trnava, Vranov nad Topľou, Zvolen, Žiar nad Hronom and Žilina. In addition, under an agreement with Slovenská pošta, the Bank sells its products and services through 1,539 post offices and selected bank services through 40 offices of Pošta-Partner, located throughout the country.

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.

At 31 December 2016, the Bank had the following subsidiaries, jointly controlled entity and associate (or joint venture):

SUBSIDIARIES	ČINNOSŤ	PODIEL V %
PRVÁPENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.	Asset management	100
Poštová poisťovňa, a.s.	Insurance	80
PB PARTNER, a.s.	Financial intermediary	100
Dôchodková správcovská spoločnosť Poštovej banky, d. s. s., a. s.	Management of pension funds	100
PB Servis, a. s.	Real estate administration	100
PB Finančné služby, a.s	Financial and operational leasing and factoring	100
PB IT, a.s. in liquidation	IT services	100

JOINTLY CONTROLLED ENTITY	ACTIVITY	SHARE IN %
SPPS, a.s.	Payment services	40

ASSOCIATE	ACTIVITY	SHARE IN %
ART FOND – Stredoeurópsky fond súčasného umenia, a.s.	Art and sales	27.7

All entities are resident in the Slovak Republic.

The Bank acts as a founder of the following non-profit oriented organization as at 31 December 2016:

	ACTIVITY	SHARE IN %
NADÁCIA POŠTOVEJ BANKY	Charitable foundation	100 %

9. FINANCIAL STATEMENTS

The Foundation is not included in the consolidated financial statements of Poštová banka, a.s.

Shareholders of the Bank at 31 December 2016

NAME OF SHAREHOLDER	ADDRESS	TOTAL NUMBERS OF SHARES	SHARE CAPITAL OWNERSHIP IN %
J&T FINANCE GROUP SE	Pobřežní 297/14, 186 00 Praha 8, Czech republic	213,288	64.45
PBI, a.s.	Pobřežní 297/14, 186 00 Praha 8, Czech republic	112,506	34.00
Slovenská pošta, a.s.	Partizánska cesta 9, 975 99 Banská Bystrica	4,918	1.49
Ministerstvo dopravy, výstavby a regionálneho rozvoja SR	Námestie slobody 6, 810 05 Bratislava	100	0.03
UNIQA Versicherungen AG	Untere Donaustrasse 21, 1029 Wien, Austria	87	0.03
		330,899	100.00

The shareholder structure did not change during 2016.

All shares are ordinary held in a dematerialized form and are registered. The nominal value of a share is Eur 1,107 (in 2015: Eur 1,107).

Members of the Board of Directors

Andrej Zaťko	Chairman
Daniela Pápaiová	Board member
Peter Hajko	Board member
Slavomír Varcholík	Board member (till 12 December 2016)
Ján Nosko	Board member (till 22 July 2016)

Members of the Supervisory Board

Mario Hoffmann	Chairman
Vladimír Ohlídal	Board member
Jozef Tkáč	Board member
Martin Varga	Board member (from 5 October 2016)
Jozef Kiss	Board member (from 17 June 2016)
Tomáš Drucker	Board member (till 25 May 2016)
Jozef Salaj	Board member (till 25 May 2016)

The separate financial statements of the Bank for the year ended 31 December 2015 were approved by the Board of Directors on 24 March 2016.

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 held for trading are measured at fair value;
- Financial assets at fair value through profit or loss are measured at fair value;
- Financial assets available for sale are measured at fair value.

(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 (€), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

These separate financial statements do not include segment reporting as that the Bank does not fulfill 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 trading income 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.

Foreign exchange rate gains or losses arising from financial assets and liabilities from foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance are considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

(b) Interest income and expense

Interest income and expense is recognised in profit or loss using the effective interest rate method. The effective interest rate 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. The effective interest rate is determined on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate 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 trading income.

Interest income and expense in the separate income statement include:

- Interest from financial assets and liabilities at amortized cost calculated on an effective interest basis;
- Interest from financial assets available for sale, from financial assets held to maturity, from financial assets held for trading and debt from financial instruments in the Loans and receivable portfolio calculated on an effective interest basis;
- Interest income from receivables handed over for administration recognised when received.

(c) Fees and commissions income and expenses
Fee and commission income and expense that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

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 trading income
Net trading income comprises gains and losses related to financial assets and liabilities held for trading, and includes all realised and unrealised fair value changes and foreign exchange rate differences.

(e) Dividends
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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(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.

9. FINANCIAL STATEMENTS

(h) Financial assets and liabilities

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 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.

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. Fair value measurement

IFRS 13 Fair Value Measurement was adopted by the EU on 11 December 2012 (effective for reporting periods starting on or after 1 January 2013). It does not change when an entity should use fair value, but rather prescribes how the entity, under this standard, should use fair value in situations when it is necessary or possible to use fair value. The adoption of this standard had no impact on the financial situation or profit or loss of the Bank. 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 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. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market-observable prices exist and valuation models. The Bank uses widely recognised valuation models for determining the fair value of the more common financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are taken from market.

The fair value hierarchy is monitored in relation to the valuation of quoted market prices, the valuation models with input data directly from the market, and input data that cannot be observed on the market.

vi. 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, 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 effective interest rate. 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.

9. FINANCIAL STATEMENTS

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 – revaluation of financial assets available for sale and hedging derivatives, 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 time value are reflected as a component of Net interest income.

(i) Cash and balances in central banks

Cash and balances in central banks comprises cash and similar, unrestricted balances held with central banks and term deposits with central banks. These balances are not subject to a significant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

Cash and balances in central banks are carried at amortized cost in the statement of financial position.

(j) Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are those assets and liabilities 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.

Financial assets and liabilities held for trading are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of Net trading income in the income statement.

(k) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as financial assets or liabilities held for trading. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

Hedging derivatives

Under the bank strategy, hedging derivatives are designed to hedge and manage selected risks and fulfill all requirements of IAS 39.

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

- The relationship between hedging and hedged instrument, 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 and hedged instrument is formally documented at the origination of the hedging transaction and the Bank expects that it will decrease the risk of hedged instrument;
- During the term of the hedging relationship the hedging is highly effective. The Bank considers hedging as highly effective, if the changes in fair value relating to the hedged risk during the period covered compensate changes in the fair value of the hedging instrument in the range of 80% to 125%. The effectiveness of any hedging relationship is assessed prospectively and retrospectively.

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 (bonds with fixed income denominated in euros). As the purchase of assets - bonds with fixed income increased 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 nominal and fair values of the aforementioned hedging derivatives are described in Note 11.

Changes in the fair value without interest component (clean price) of hedging instruments are recognized in a separate income statement line as Net trading income.

The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss as Net trading income.

Interest expense and interest income from the hedging instruments are presented together with the other interest income and expense items in the separate income statement under Net interest income. The positive value of hedging instruments is recognized in the separate statement of financial position as an asset Hedging derivatives. The negative value of hedging instruments is recognized as a liability Hedging derivatives. A summary of hedging derivatives is presented in Note 11.

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 amortized 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 and presented in the revaluation of financial assets available for sale and hedging derivatives. 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 income 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.

9. FINANCIAL STATEMENTS

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 presented in the revaluation of financial assets available for sale and hedging derivatives 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.

iii. 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 trading income.

iv. Embedded derivatives
Derivatives may be embedded in another contractual arrangement (a 'host contract'). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification and are presented in the statement of financial position together with the host contract.

(l) Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the agreement is presented within receivables.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo or stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortized cost using the effective interest rate method.

(m) Debt securities in loans and receivable portfolio
Debt securities included in the portfolio of loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market other than:

- debt securities held with intention to sell immediately or in the short time and debt securities the entity defines as valued at fair value through profit or loss at initial recognition;
- debt securities the entity classified as available for sale at initial recognition.

Such securities are measured at their amortized cost.

(n) Financial assets held to maturity
Financial assets held to maturity are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or as financial assets available for sale.

Financial assets held to maturity are initially measured at fair value plus incremental direct transaction costs and subsequently measured at amortized cost using the effective interest rate method. Any sale or reclassification of a significant amount of financial assets held to maturity before maturity, except for sales or reclassifications in accordance with IAS 39.9, would result in the reclassification of all financial assets held to maturity as financial assets available for sale and prevent the Bank from classifying investments securities as financial assets held to maturity for the current and the following two financial years.

If as a result of changes in intent or ability it is no longer appropriate to classify a financial asset as held to maturity, such a financial asset is reclassified to the financial assets available for sale category and carried at fair value in accordance with paragraphs 51-55 of IAS 39.

(o) Financial assets available for sale
Financial assets available for sale are non-derivative investments that are not designated as another category of financial assets. Financial assets available for sale are initially measured at fair value plus incremental direct transaction costs and subsequently carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on financial assets available for sale are recognised in profit or loss.

Fair value changes are recognised in other comprehensive income and presented in the revaluation of financial assets available for sale and hedging derivatives until the investment is sold or impaired and the cumulative gain or loss is then recognised in profit or loss.

(p) Investments in subsidiaries, jointly controlled entity and associate
IFRS 12 Disclosure of Interests in Other Entities has been effective since 1 January 2014. The standard requires additional disclosure about significant judgments and assumptions which are used to define the character of investments in the company or an agreement, investments in subsidiaries, joint-agreements and affiliates and in unconsolidated structured entities.

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. Valuation and impairment losses are described in point 3 (h) (vi).

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 interest retained in the former subsidiary is measured at fair value when control is lost.

9. FINANCIAL STATEMENTS

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

(q) 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.
The estimated useful lives for the current and comparative periods are as follows:

Buildings	40 years, straight line
Furniture, fittings and equipment	4 to 15 years, straight line
Motor vehicles	4 years, straight line
Software	4 to 7 years, straight line

Depreciation commences when the asset is put into use.
Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Software

Software is carried at cost less accumulated amortization and impairment losses. Amortization is recognised on a straight line basis over the estimated useful life of the software, which is reassessed on yearly basis.

(r) Assets acquired based on financial leasing 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.

(s) Impairment of 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 amortization, if no impairment loss had been recognised.

(t) Financial liabilities measured at amortized costs
Financial liabilities to banks, financial liabilities to customers, loans received and subordinated debt are the Bank`s sources of debt funding.

Financial liabilities to banks, financial liabilities to customers, loans received and subordinated debt are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost, including accrued interest, using the effective interest method.

When the Bank sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a financial liability, and the underlying asset continues to be recognised in the Bank's financial statements.

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(u) 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.

(v) Employee benefits
i. Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss statement when they are due.

ii. 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.

iii. 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.

(w) New standards and interpretations not yet adopted
Following new standards, interpretations and amendments were not effective for the reporting periods ending 31 December 2016 and were not applied in these financial statements:

IFRS 9 Financial Instruments

(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement, except the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities, which continues to apply.

The Bank manages the preparation for implementation of IFRS 9 standard as a separate project. This project is divided into the following stages: 1. Initial assessment and analysis; 2. Creation of methodology and functional specification; 3. Creation of data specification; 4. Implementation; 5. Testing; 6. Pre-production launch and 7. Full operation/implementation from 1 January 2018.

The new standard requires, that all financial assets, except equity securities and derivatives, will be measured based on combination of business model of the company for management of in-

dividual assets and based on characteristics resulting from contractual cash flows of individual assets. Measurement categories for financial assets under IAS 39 will be replaced by the following categories:

- fair value through profit or loss (FVPL),
- fair value through other comprehensive income (FVOCI), and
- Amortized cost.

IFRS 9 will allow the company to continue to irrevocably designate financial assets measured (a) at the amortized cost or (b) at fair value through other comprehensive income as financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency in reporting. Equity securities that are not held for trading may be irrevocably classified as financial assets at fair value through other comprehensive income without subsequent reclassification of gains and losses to the statement of profit or loss.

The accounting for financial liabilities will largely be the same as under the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit and loss. Such movements will be presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss, unless an accounting discrepancy in profit or loss would arise.

i. Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39. The Bank currently analyses, whether they will continue to use hedge accounting under IAS 39 or if they will implement IFRS 9 for hedge accounting as well.

ii. Impairment of financial assets

IFRS 9 will fundamentally change the loss impairment calculations. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank will in accordance with IFRS 9 group its loans and advances into the following stages for calculation of impairment loss allowances:

- Stage 1 – Performing loans: when loans and advances will be first recognised, the Bank will calculate an impairment loss allowances based on 12 month expected credit losses.
- Stage 2 - Underperforming loans: in case, of significant increase of credit risk, the Bank will calculate impairment loss allowance based on the probability of default over the lifetime (whole maturity) of the asset. Given the fact that the principle of lifetime expected losses is new and given the fact that many loans and advances that would currently be classified in stage 2 may not be considered to be impaired based on specific individual analysis, the bank expects that for loans and advances included in stage 2 there will be a significant increase in impairment loss allowances.
- Stage 3 – Impaired loans: Bank will calculate impairment loss allowances based on the expected loss for the entire period of the loan. Interest income will be calculated from the amortized cost adjusted for impairment loss allowances. Loans will be included in Stage 3 when there is objective evidence that a loan is impaired. The criteria in this case are similar to the criteria of IAS 39 and therefore the Bank does not expect significant differences in the amount of impairment loss allowances between IFRS 9 and IAS 39 for loans and advances included in Stage 3.

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Based on preliminary analysis, the Bank expects that all financial assets classified as a loans and advances under IAS 39 will be still measured at amortized cost under IFRS 9.

Currently it is not clear, what part of debt securities will be measured at fair value through profit or loss, fair value through other comprehensive income or measured at amortized cost. The valuation and reporting method will depend on results from business model test.

Within the transition to IFRS 9, some equity securities, which are currently classified as Financial assets available for sale, may be reclassified to Financial assets at fair value through profit or loss. The classification will depend on Group's decision at the date of initial application of IFRS 9 on 1 January 2018. The Bank has not yet adopted a decision on the classification of these financial assets.

The Bank expects, that financial liabilities at amortized cost under IAS 39 will be also measured at amortized cost under IFRS 9.

It is expected that the new concept of expected losses will result in faster recognition of impairment losses and the initial application of IFRS 9 will increase impairment losses.

IFRS 15 Revenue from contracts with customers
(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will need to adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

The Bank does not expect that the new Standard, when initially applied, will have a material impact on the financial statements. The timing and measurement of the Entity's revenues are not expected to change under IFRS 15 because of the nature of the Bank's operations and the types of revenues it earns.
IFRS 16 Leases
(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15). This standard is not yet endorsed by the EU.

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.

Implementation of the new standard from larger part does not have any impact on the lessor's accounting. The lessor will continue to distinguish between financial and operating leases.

The Bank does not expect that the new standard will have a material impact on its financial statements when first applied. The Bank will assess every item within leasing individually.

The following new standards, interpretations and amendments are not effective for the accounting period ending 31 December 2016 and were not applied in the preparation of the financial statements. The Bank does not expect any material impact on the Bank`s financial statements when

the following standards will be applied:

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.
- Amendments to IFRS 10 a IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 7 - The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 40 Transfers of Investment Property
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

(x) Changes in the structure of the financial statements and adjustment of the previous reporting period

With effect from 31 December 2016 the Bank has changed the structure of the statement of financial position, the statement of profit or loss and other comprehensive income and the statement of cash flows to provide more reliable and relevant information about its financial position and performance.

The new structure was also implemented in order to achieve harmonization in meeting the new regulatory requirements in the area of financial reporting based on IFRS principles („FINREP"), which were introduced in 2014 by the European banking supervisory authorities („EBA") and constitute the mandatory regulatory reporting framework for banking institutions based in the EU.

The implementation of the new structure has no effect on already issued financial statements. The data for the previous accounting period presented in the Bank's financial statements for the year ended 31 December 2015 has been amended in accordance with the new structure. The following tables summarizes the list of changes as at 31 December 2015.

Summary of changes in the statement of financial position structure – assets:

- The statement of financial position structure is harmonized according to IAS 39
- Loans and advances to financial institutions are disclosed in a separate line within the „Loans and advances" category
- Securities are disclosed in a separate line based on portfolio type, i.e. „Financial assets available for sale" and „Financial assets held to maturity"

IFRS – ORIGINAL VERSION	31.12.2015	LOANS AND ADVANCES TO BANKS	LOANS AND ADVANCES	SECURITIES AND DERIVATIVES	HEDGING DERIVATIVES	TAX	IFRS – NEW VERSION	31.12.2015
ASSETS							ASSETS	
Cash and balances at central banks	**562,245**	(87,864)					Cash and balances at central banks	**474 381**
Trading assets	**2,106**						Financial assets held for trading	**2 106**
Hedging derivatives	**1,242**				(1,242)			
Loans and advances	**2,161,578**		(2,161,578)					
Investment securities	**1,312,327**			(1,312,327)				
				851,229			Financial assets available for sale	**851,229**
				461,098			Financial assets held to maturity	**461,098**
							Loans and advances	**2,249,442**
		87,864					Loans and advances to financial institutions	**87,864**
			1,932,002				Loans and advances to customers	**1,932,002**
			229,576				Debt securities	**229,576**
					1,242		Hedging derivatives	**1,242**
Investments in subsidiaries and jointly controlled entity	**39,541**						Investments in subsidiaries, jointly controlled entity and associates	**39,541**
Property and equipment	**11,717**						Tangible assets	**11,717**
Intangible assets	**15,195**						Intangible assets	**15,195**
Deferred tax asset	**13,705**					(13,705)		
Tax receivable	**3,452**						Tax receivable	**3,452**
						13,705	Deferred tax asset	**13,705**
Other assets	**50,870**						Other assets	**50,870**
Total assets	**4,173,978**	-	-	-	-	-	**Total assets**	**4,173,978**

Summary of changes in the statement of financial position structure – liabilities:

- The statement of financial position structure is harmonized according to IAS 39
- Subordinated debt is presented in a separate line within „Financial liabilities at amortized cost“
- The various components of equity are disclosed cumulatively under „Equity“

IFRS – ORIGINAL VERSION		HEDGING DERIVATIVES	SUBORDINATED DEBT	IFRS – NEW VERSION	
LIABILITIES	31.12.2015			LIABILITIES	31.12.2015
Trading liabilities	84			Financial liabilities held for trading	84
Hedging derivatives	312	(312)			
				Financial liabilities at amortized cost	3,540,300
Deposits by banks	3,930			Financial liabilities to financial institutions	3,930
Customer accounts	3,528,357			Financial liabilities to customers	3,528,357
			8,013	Subordinated debt	8,013
		312		Hedging derivatives	312
Provisions for off balance sheet liabilities	1,960			Provisions for off balance sheet liabilities	1,960
Other liabilities	30,473			Other liabilities	30,473
Subordinated debt	8,013		(8,013)		
TOTAL LIABILITIES	3,573,129	-	-	**TOTAL LIABILITIES**	3 573,129
Equity	31.12.2015			**Equity**	31.12.2015
Share capital	366,305				
Share premium	738				
Reserves and retained earnings	233,806				
TOTAL EQUITY	600,849			**TOTAL EQUITY**	600,849
TOTAL EQUITY AND LIABILITIES	4,173,978			**TOTAL EQUITY AND LIABILITIES**	4,173,978

Summary of changes in the statement of profit or loss structure:

- Interest income and interest expense in the statement of profit or loss is cumulatively disclosed in the line „Net interest income"
- Fee and commission income and expense in the statement of profit or loss is cumulatively disclosed in the line „Net fee and commission income"
- Contributions to the Deposit protection fund („DPF"), Resolution fund („RF") and Special levy („SL") for banking institutions are now disclosed in the line „Net other operating expenses" (previously disclosed as „Fee and commission expense").
- Net losses from assignment and write off of receivables (loans and advances) are disclosed in the line „Impairment losses to financial assets not valued at fair value through profit and loss" (previously disclosed in „Net other loss").
- Impairment losses on non-financial assets comprise „Impairment losses on tangible assets" and „(Creation)/ release of provisions to other assets".

IFRS – ORIGINAL VERSION STATEMENT OF PROFIT OR LOSS	2015	INTEREST INCOME/ EXPENSE	FEE AND COMMISSION INCOME	DPF, SL, RF	IMPAIRMENT LOSSES	GENERAL ADMINISTRATIVE EXPENSES	ROUNDING	IFRS – NEW VERSION	2015
Interest income	**229,695**	(7,206)							
Interest expense	**(44,543)**	7,206							
Net interest income	**185,152**	-						Net interest income	**185,152**
Fee and commission income	**49,408**								
Fee and commission expense	**(36,980)**		(23)	9,657		(66)	(1)		
Net fee and commission income	**12,428**		**(23)**	**9,657**		**(66)**	**(1)**	Net fee and commission income	**21,995**
Dividends received	**7,694**							Dividend income	**7,694**
Net trading income	**12,286**		23					Net trading income	**12,309**
Net other losses	**(264)**			(9 657)	1,979	(570)		Net other operating expenses	**(8,512)**
Administrative expenses	**(65,141)**					636	1	Administrative expenses	**(64,504)**
Depreciation and amortization	**(6,596)**							Depreciation and amortization	**(6,596)**
Impairment losses for receivables	**(67,784)**				(1,967)			Impairment losses for financial assets not valued at fair value through profit and loss	**(69,751)**
Investment losses for subsidiaries	**(986)**							Impairment losses for subsidiaries, jointly controlled entity and associated company	**(986)**
Impairment losses for tangible assets	**(686)**				686				
(Creation)/ release of provisions to other assets	**(327)**				327				
					(1,025)			Impairment losses for non-financial assets	**(1,025)**
Creation of provisions for off-balance sheet liabilities	**(1,894)**							Release / (creation) of provisions for off-balance sheet liabilities	**(1,894)**
Income tax	**(19,589)**							Income tax	**(19,589)**
PROFIT AFTER TAX	**54 293**	-	-	-	-	-	-	**PROFIT AFTER TAX**	**54,293**

4. USE OF ESTIMATES AND JUDGEMENTS

These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for impairment
Assets accounted for at amortized cost are evaluated for impairment on the basis described in accounting policies and accounting methods 3 (h)(vi).

The specific counterparty component of the total allowances for impairment applies to receivables evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable. The head of the Risk Management Division is responsible for the assessment of the extent of impairment of individually assessed receivables and for determining the amount of any impairment loss.

The valuation of collateral that is part of the calculation takes into account the conclusions of the evaluation performed by the Bank's valuaers. The baseline for the valuation, according to the current methodology of the Bank, is the actual Bank`s value that reflects the valuation of collateral in case of forced realization achievable on the market (irrespective of the costs relating to acquisition and sale). The Bank also takes into account the depreciation of the movable assets (machinery – technological devices, vehicles) by discounting with a coefficient of 5% p.a. for the period from the calculation of the allowance for impairment until the expected date of realization of the collateral. Subsequently, the Bank estimates the loss percentage from realization of the collateral as well as the expected date of realization.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of receivables with similar economic characteristics when there is objective evidence to suggest that they contain impaired receivables, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these assumptions estimate future cash flows for specific counterparty allowances and on the model assumptions and parameters used in determining collective allowances.

The Bank creates the collective impairment losses based on the probability of default ('PD') and loss given default ('LGD'). A change of the LGD parameter by +/-5% or +/-10%, would result in a change in the allowances for impairment by +/-5.12% (in absolute numbers +/- € 8,326 thousand), or +/- 10.23% (in absolute numbers +/- € 16,653 thousand). 'PD' values are recalculated and recalibrated on a monthly basis and they reflect changes in impairment losses in particular portfolios.

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 as described in accounting policy 3 (h)(v). 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

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instrument. Determining fair value of such instruments is also influenced by the assessment of the credit risk of the counterparty in accordance with principles and procedures stated in point 5(b) Management of financial risks – credit risk. Further information about the amounts of financial instruments at fair value, analyzed according to the valuation methodology (broken down into individual valuation levels) are included in this note later.

Critical judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:
Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'at fair value through profit or loss', management determines whether the Bank meets the description of financial assets held for trading and financial liabilities held for trading set out in accounting policy 3 (j).
- In classifying financial assets as held-to-maturity, management determines whether the Bank has both the positive intent and ability to hold the assets until their maturity date as required by accounting policy, note 3 (n).

Impairment of investments in equity securities

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3(h)(vi).
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 percent to be "significant" and a decline in a market price on an active market that persist for nine months or longer to be prolonged.

Valuation of financial instruments
The Bank's accounting policies and methods for fair value measurements are discussed under note 3(h)(v).
The Bank measures fair values using the following hierarchy:

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Shares in funds are measured at price received from asset management company. For all other financial instruments, the Bank determines fair values using valuation techniques.

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

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 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.

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.

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.

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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.

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.

The reported amounts of financial instruments at fair value analyzed according to valuation methodology were as follows:

31. DECEMBER 2016	NOTE	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000	TOTAL € '000
Assets					
Financial assets held for trading	7	199	513	-	712
Financial assets available for sale	8	533,158	226,915	69,387	829,460
Hedging derivatives	11	-	-	-	-
Total		533,357	227,428	69,387	830,172
Liabilities					
Financial liabilities held for trading	7	-	277	-	277
Hedging derivatives	11	-	5,063	-	5,063
Total		-	5,340	-	5,340

31. DECEMBER 2015	NOTE	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000	TOTAL € '000
Assets					
Financial assets held for trading	7	1,556	550	-	2,106
Financial assets available for sale	8	770,190	23,558	57,481	851,229
Hedging derivatives	11	-	1,242	-	1,242
Total		771,746	25,350	57,481	854,577
Liabilities					
Financial liabilities held for trading	7	-	84	-	84
Hedging derivatives	11	-	312	-	312
Total		-	396	-	396

The following table shows a reconciliation of the opening balance to the closing balance of fair values in the category (Level 3): Valuation techniques - unobservable inputs:

FINANCIAL ASSETS AVAILABLE FOR SALE	2016 € '000	2015 € '000
At 1 January	57,481	126,232
Total gains or losses:		
in profit or loss	4,301	7,180
in other comprehensive income	2,685	2,226
Maturities and sales	(23,197)	(97,385)
Purchases	28,117	15,000
Transfers into the category	-	-
Transfers out of the category	-	-
Other	-	4,228
At 31 December	69,387	57,481

The following table shows information regarding the investment movements between all categories of valuation methods during 2016:

31. DECEMBER 2016	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000
Financial assets held for trading			
Transfers into the category	-	-	-
Transfers from the category	-	-	-
Financial assets available for sale			
Transfers into the category	-	189,698	-
Transfers out of the category	(189,698)	-	-
Total	(189 698)	189 698	-

31. DECEMBER 2015	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000
Financial assets held for trading			
Transfers into the category	-	-	-
Transfers from the category	-	-	-
Financial assets available for sale			
Transfers into the category	50,302	-	-
Transfers out of the category	-	(50,302)	-
Total	50,302	(50,302)	-

5. FINANCIAL RISK MANAGEMENT

(a) Introduction

The Bank has exposure to the following main risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Information on the exposure to each of the above risks; the objectives, policies and processes for measuring and managing risk; and on the management of the Bank's capital is set out below.

Risk management framework

The ultimate body responsible for risk management in the Bank 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 – Assets - Liabilities Committee (ALCO), Credit Committee, Operational Risk Management Committee (ORCO), Program and Project Committee (PPV), Management of Development requirements and changes APV (BITCO), Architectural Committee, Product Committee, Compensation Committee (NK), Disposal Committee (VK) and Risk Management Committee.
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.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, the provisions of guarantees, the issuance of documentary credits, loans and advances to other banks and the purchase of investment securities. 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, country, sector and concentration risk).

Credit risk management within the Bank is the responsibility of the Division of management of retail risk, scoring and collection of retail loans – "ORR", Division of management of corporate banking risk – "ORKB") and Division of risk and capital management – "ORK". The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit Committee in compliance with a formal order establishing authorities and responsibilities.

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.

Several methods of credit risk measurement, monitoring and mitigation are used in the Bank. 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 analyzing the client deal the Bank uses:
- Client and deal 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 design and evaluation of credit limit for individually assessed client or transaction is in the responsibility of the ORR or ORKB and are approved by the relevant competent authority. 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 currently uses three rating systems for the evaluation of clients who prepare financial statements prepared according to Slovak Accounting Standards, Czech Accounting Standards and International Financial Reporting Standards. The rating system evaluates quantitative and qualitative indicators of economic activities (eg. liquidity ratio, profitability, gearing etc.) and compares them to the subjective assessment of the client by the Bank. In addition collateral accepted by the Bank is also reflected in the deal rating. 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.

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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.

For retail loans the Bank uses multiple rating models depending on the segment.

Loans and advances, excluding debt securities from the loans and receivables portfolio, were granted to customers in the following sectors (gross amount):

	2016 € '000	2015 € '000
Individuals	725,219	671,249
Financial services	505,797	515,380
Other services (accommodation services, real estate investment activities)	500,218	407,897
Manufacturing companies	197,084	260,064
Trading companies	172,221	169,828
Transport and telecommunication	73,267	24,910
Real estate construction	11,303	15,587
Agriculture	518	962
Health care and public services	368	454
Total	2,185,995	2,066,331

Loans and advances, excluding debt securities from the loans and receivables portfolio, were made to customers in the following countries (gross amount):

	2016 € '000	2015 € '000
Slovak Republic	1,453,550	1,243,190
Other EU countries	732,443	823,141
Out of which: Czech republic	358,675	236,799
Cyprus	222,186	392,356
Luxembourg	88,440	88,323
Poland	63,087	88,433
Other EU member countries	55	17,230
Other countries outside EU	2	-
Total	2,185,995	2,066,331

Debt securities in the portfolio of loans and receivables by sector (gross):

	2016 € '000	2015 € '000
Other services (accommodation services, real estate investment activities)	107,824	79,463
Financial services	94,534	85,397
Manufacturing companies	-	64,716
Total	202,358	229,576

Debt securities in the portfolio of loans and receivables by country of issuer (gross):

	2016 € '000	2015 € '000
Slovak Republic	76,431	144,179
Other member countries of EU	125,927	85,397
out of which: Cyprus	85,535	85,397
Czech Republic	40,392	-
Total	202,358	229,576

Classification of receivables

Individually significant receivables are classified into five categories (standard, standard receivables with a qualification, non-standard, doubtful and loss receivables), which for the purposes of monitoring and reporting, are further classified into the following categories:

- Without identified impairment,
- Receivables with identified triggers of impairment:
  - With decreased value – impaired,
  - Defaulted.

Receivables that are not individually significant, which are assessed on a portfolio basis, are classified based on the number of overdue days, as follows:

- Non-impaired – overdue 0 day
- Impaired – overdue 1 – 90 days
- Defaulted – overdue more than 90 days.

The Bank sets the level of significance at € 166 thousand. The loans and advances with a value equal or higher than € 166 thousand are assessed individually.

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Individually assessed loans and advances

The Bank uses an internal rating system for providing and monitoring of loans and advance granted to corporate clients. The rating is given based on the assessment of the economic health, prospect and the client market share.

The receivables are reported as not impaired if they do not present any of the following triggers of impairment:

a) significant financial difficulty of issuer or debtor,
b) breach of contract, e.g. default or delay in repayment of principal or interests,
c) lender granting to a borrower a concession due to economic or legal reasons that the lender would not otherwise consider,
d) borrower will enter bankruptcy or other financial reorganisation.

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

Past due but not impaired loans
Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not necessary on the basis of the accepted collateral or status of repayments of amounts owed to the Bank.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

The Bank distinguishes between performing and non-performing receivables, where the monitored features are the number of days overdue and the probability of default, without the realization of collateral. To consider receivable as non-performing, it is sufficient to meet at least one of these criteria.

Performing receivables are subsequently divided to performing without relief, performing with relief refinanced and performing with relief in the form of conditions modification.

The Bank assesses receivable as performing with relief refinanced when the loan was provided for full or partial repayment of the original loan.

The Bank assessed receivables as performing with relief in the form of conditions modification when there were changes in the contract`s conditions made and the loan is not refinanced. These changes would not be made if the client`s financial position did not deteriorate (while not refinanced receivables).

The loans which do not have any of the characteristics above are assessed by the Bank as performing without relief.

Below is an analysis of the book values of individually and collectively assessed (a) loans and advances, (b) balances at the central bank, (c) debt securities in the portfolio of financial assets available for sale and financial assets held to maturity and (d) bank guarantees and loan commitments:

	LOANS AND ADVANCES		BALANCES AT CENTRAL BANKS		FINANCIAL ASSETS AVAILABLE FOR SALE AND FINANCIAL ASSETS HELD TO MATURITY		BANK GUARANTEES AND CREDIT LINES	
	2016 € '000	2015 € '000	2016 € '000	2015 € '000	2016 € '000	2015 € '000	2016 € '000	2015 € '000
Individually assessed								
Not-impaired	1,517,102	1,515,971	626,334	441,921	1,005,816	1,116,274	412,042	461,402
Out of which:								
Overdue	1,307	3,146	-	-	-	-		
Impaired	194,565	201,565	-	-	-	-	6,408	4,770
Out of which:								
Defaulted	177,387	152,028	-	-	-	-	6,339	3,823
Restructured	99,320	95,205	-	-	-	-	3,055	-
Book value	1,711,667	1,717,536	626,334	441,921	1,005,816	1,116,274	418,450	466,172
Allowance for impairment	(60,121)	(49,154)	-	-	-	-	-	-
Net book value	**1,651,546**	**1,668,382**	**626,334**	**441,921**	**1,005,816**	**1,116,274**	**418,450**	**466,172**
Collectively assessed								
Not-impaired	550,533	506,123	-	-	-	-	100,175	105,696
Impaired	173,787	160,112	-	-	-	-	-	-
Out of which:								
Defaulted	114,115	99,314	-	-	-	-	-	-
Book value	724,320	666,235	-	-	-	-	100,175	105,696
Allowance for impairment	(110,343)	(85,175)	-	-	-	-	-	-
Net book value	613,977	581,060	-	-	-	-	100,175	105,696
Net book value total	**2,265,523**	**2,249,442**	**626,334**	**441,921**	**1,005,816**	**1,116,274**	**518,625**	**571,868**

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LOANS AND ADVANCES AS AT 31 DECEMBER 2016	GROSS RECEIVABLES € '000	IMPAIRMENT ALLOWANCES € '000	NET RECEIVABLES € '000
Non-performing			
Without relief	145,356	95,320	50,036
With relief refinanced	97,155	37,803	59,352
With relief in form of conditions modification	41,292	6,890	34,402
Non-performing total	283,803	140,013	143,790
Performing:			
Without relief	2,122,287	27,702	2,094,585
With relief refinanced	29,248	2,663	26,585
With relief in form of conditions modification	649	86	563
Performing total	2,152,184	30,451	2,121,733
Total	2,435,987	170,464	2,265,523

LOANS AND ADVANCES AS AT 31 DECEMBER 2015	GROSS RECEIVABLES € '000	IMPAIRMENT ALLOWANCES € '000	NET RECEIVABLES € '000
Non-performing			
Without relief	127,039	78,571	48,468
With relief refinanced	77,871	29,090	48,781
With relief in form of conditions modification	38,508	4,306	34,202
Non-performing total	243,418	111,967	131,451
Performing:	2,086,186	19,909	2,066,277
Without relief	47,046	2,368	44,678
With relief refinanced	7,121	85	7,036
With relief in form of conditions modification	-	-	-
Performing total	2,140,353	22,362	2,117,991
Total	2,383,771	134,329	2,249,442

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loan loss allowances that relate to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Provisions

In accordance with International Accounting Standard IAS 37 the Bank creates provisions for off balance sheet liabilities (valid credit lines, bank guarantees and letters of credit) if it expects the emergence of potential credit losses. The Bank creates provisions in accordance with materiality levels separately for individual off balance sheet liabilities over € 166 thousand and portfolio off balance sheet liabilities below € 166 thousand. For individually assessed liabilities The Bank sets the percentage of loss to the same level as for undrawn receivables.

Write-off policy

The loan/security balance (and any related allowances for impairment losses) is written off when the Bank discovers that the loans/securities are uncollectible. This decision is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balances of standardized loans, the write-off decision is generally based on a number of days past-due specific for a given product.

The loans and advances exposures according to product types (internal classification) are as follows:

	31 DECEMBER 2016			31 DECEMBER 2015		
	GROSS AMOUNT € '000	IMPAIRMENT ALLOWANCES € '000	CARRYING AMOUNT € '000	GROSS AMOUNT € '000	IMPAIRMENT ALLOWANCES € '000	CARRYING AMOUNT € '000
Retail clients:						
Better payment (Lepšia splátka)	432,414	53,258	379,156	340,202	32,217	307,985
Good loan (Dobrá pôžička)	172,715	17,654	155,061	149,432	8,899	140,533
Overdrafts	21,944	4,335	17,609	24,239	3,855	20,384
Assigned receivables	275	275	-	-	-	-
Other	97,533	34,708	62,825	153,892	40,113	113,779
	724,881	110,230	614,651	667,765	85,084	582,681
Corporate clients:						
Large clients	1,223,969	11,424	1,196,148	1,317,371	23,166	1,294,205
Foreign currency loans	210,230	13,449	198,806	143,571	8,306	135,265
Overdrafts	208,556	7,428	195,107	117,189	9,870	107,319
Assigned receivables	20,053	-	12,625	49,773	7,815	41,958
Small clients	480	112	480	87	-	87
Other receivables	184	112	72	151	88	63
Loans and advances to banks	47,634	-	47,634	87,864	-	87,864
	1,711,106	60,234	1,650,872	1,716,006	49,245	1,666,761
Total	2,435,987	170,464	2,265,523	2,383,771	134,329	2,249,442

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Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair values are based on the value of collateral assessed at the time before executing the deal and are reassessed in compliance with the internal methodology of the Bank. Generally, collateral is not held on loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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.

An estimate of the fair value of collateral and other security enhancement held to secure financial assets is shown below:

LOANS AND ADVANCES TO CUSTOMERS	2016 € '000	2015 € '000
Against individually not impaired loans		
Real estate	168,760	216,716
Movables	25,840	28,663
Debt securities	82,496	-
Equity securities	298,890	157,235
Other	175,542	168,080
	751,528	570,694
Against individually impaired loans		
Real estate	91,822	117,659
Movables	9,834	13,852
Bank guarantees	-	-
Other	5,915	4,552
	107,571	136,063
Against collectively assessed loans		
Real estate	5,989	9,136
Movables	-	-
Other	58	93
	6,047	9,229
Total	**865,146**	**715,986**

Assets obtained by taking possession of collateral

During the year the Bank obtained into its assets the assets in net book value of € 50 thousand (in 2015: € 336 thousand).

As noted above, to mitigate the credit risk before providing loans to corporate clients, the Bank generally requires collateral. The following collateral types are accepted:

- Cash
- State guarantees
- Securities
- First-class receivables
- Bank guarantees
- Guarantees issued by a reputable third party
- Real estate
- Machinery and equipment

Recovery of delinquent receivables

Receivables whose repayment is threatened are administrated by the Department of risk management of corporate banking – Department of restructuralization of corporate receivables. The Department of restructuralization of corporate receivables 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.

The Department of Retail Risk Management, Scoring and Loans Collections – Department of Retail Loans Collection (DRLC) is responsible for collection of retail loans. In the retail segment, the recovery process for overdue receivables is defined and centrally operated by workflow systems (the workflow system in the Bank's environment is a recovery managed by the system provided by the company Loxon). The system provides complex evidence of delinquent receivables, it uses segmented strategy of recovery and it also processes numerous task flows, automated collection tasks, etc., which initiate activities for early recovery by the DRLC. The Bank also uses the outsourcing services of collection companies. The Department of Retail Risk Management, Scoring and Loans is responsible for defining the procedures for recovery, as well as the measurement of their effectiveness.

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 honor 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 from the Risk and Capital Management Department.

Country risk

The Bank monitors country risk in accordance with internal guidelines and in compliance with national legislation. Detailed information on concentration of portfolio of government securities can be found in Note 8 Financial assets available for sale and Note 9 Financial assets held to maturity.

9. FINANCIAL STATEMENTS

(c) 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 the Bank's Dealing Department within the Financial Market Division by monitoring the liabilities and receivables due, and fulfilling the compulsory minimum reserves.
- Long-term liquidity risk management is based on a model of core deposits using the Liquidity at Risk method.
- 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).

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 also able to finance its assets from interbank deposits. 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 specialized ALM Department is responsible for liquidity management.

The Financial Market Division receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details about other projected cash flows arising from projected future business. The Financial Market Division then 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 an emergency plan and crisis communication plan that describes the principles and procedures of management in extraordinary conditions and secures the availability of financial backup sources. All liquidity policies and procedures are subject to review and approval by 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: the liquidity ratio of fixed and illiquid assets, the ratio of liquid assets0F, the ratio of primary liquidity, liquidity coverage ratio, modified liquidity gap ratio and net stable funding ratio and analysis of survival time under 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.

Details of the Bank's liquidity ratios at the reporting date and during the reporting period were:

THE LIQUIDITY RATIO OF FIXED AND ILLIQUID ASSETS	2016	2015
End of the period	0,54	0,61
Average for the period	0,61	0,61
Maximum for the period	0,65	0,66
Minimum for the period	0,54	0,56

LIQUIDITY COVERAGE RATIO	2016	2015
End of the period	1,99	1,88
Average for the period	2,04	1,70
Maximum for the period	2,29	2,58
Minimum for the period	1,84	1,34

The liquidity ratio of fixed and illiquid assets is a proportion of the sum of the fixed assets and illiquid assets to selected liability items. This ratio shall not exceed the value of 1.

The liquidity coverage ratio is the ratio of the sum of liquid assets to net negative cash flows. The value of this ratio cannot fall below 1.

The ratios are defined in the Provision of the National Bank of Slovakia No. 18/2008 on Bank liquidity.

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The following table provides an overview of the distribution of assets and liabilities according to their contractual maturity as short-term (with a maturity up to 1 year) and long term (with a maturity over one year). Anticipated cash flows may differ from this analysis:

	31 DECEMBER 2016			31 DECEMBER 2015		
	SHORT-TERM € '000	LONG-TERM € '000	TOTAL € '000	SHORT-TERM € '000	LONG-TERM € '000	TOTAL € '000
Assets						
Cash and balances at central banks	659,214	-	659,214	474,381	-	474,381
Financial assets held for trading	513	199	712	550	1,556	2,106
Financial assets available for sale	83,132	746,328	829,460	53,958	797,271	851,229
Financial assets held to maturity	68,043	281,620	349,663	116,391	344,707	461,098
Loans and advances	645,485	1,620,038	2,265,523	533,135	1,716,307	2,249,442
Loans and advances to financial institutions	47,634	-	47,634	87,864	-	87,864
Loans and advances to customers	512,325	1,503,206	2,015,531	348,098	1,583,904	1,932,002
Debt securities	85,526	116,832	202,358	97,173	132,403	229,576
Hedging derivatives	-	-	-	-	1,242	1,242
Investment in subsidiary, jointly controlled entity and associate	-	41,539	41,539	-	39,541	39,541
Tangible assets	-	10,047	10,047	-	11,717	11,717
Intangible assets	-	17,653	17,653	-	15,195	15,195
Deferred tax receivable	-	13,876	13,876	-	13,705	13,705
Current tax receivable	202	-	202	3,452	-	3,452
Other assets	68,127	-	68,127	50,870	-	50,870
Total assets	**1,524,716**	**2,731,300**	**4,256,016**	**1,232,737**	**2,941,241**	**4,173,978**
Liabilities						
Financial liabilities held for trading	277	-	277	84	-	84
Financial liabilities measured at amortized costs	3,177,019	431,253	3,608,272	3,027,954	512,346	3,540,300
Financial liabilities to financial institutions	4,242	-	4,242	3,930	-	3,930
Financial liabilities to customers	3,172,764	423,253	3,596,017	3,024,011	504,346	3,528,357
Subordinated debt	13	8,000	8,013	13	8,000	8,013
Hedging derivatives	206	4,857	5,063	-	312	312
Current tax liability	3,862	-	3,862	-	-	-
Provisions	-	1,455	1,455	-	1,960	1,960
Other liabilities	29,995	-	29,995	30,473	-	30,473
Total liabilities	**3,211,359**	**437,565**	**3,648,924**	**3,058,511**	**514,618**	**3,573,129**

The Bank monitors maturity based on anticipated prolongation or expected maturity of each asset and liability. Historical experience shows that short-term liabilities are usually prolonged.

The following tables show the residual maturity of non-derivative 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.

	TOTAL CARRYING AMOUNT € '000	LESS THAN 3 MONTHS € '000	3 MONTHS TO 1 YEAR € '000	1-5 YEARS € '000	MORE THAN 5 YEARS € '000	CONTRACTUAL CASH FLOW TOTAL € '000
31 December 2016						
Financial liabilities measured at amortized costs						
Financial liabilities to financial institutions	4,242	4,242	-	-	-	4,242
Financial liabilities to customers	3,596,017	2,666,717	526,679	413,756	8,634	3,615,786
Subordinated debt	8,013	105	322	9,604	-	10,031
Other liabilities (only financial liabilities)	26,846	26,642	204	-	-	26,846
Total	3,635,118	2,697,706	527,205	423,360	8,634	3,656,905
31 December 2015						
Financial liabilities measured at amortized costs						
Financial liabilities to financial institutions	3,930	3,930	-	-	-	3,930
Financial liabilities to customers	3,528,357	2,573,694	469,037	510,060	4,381	3,557,172
Subordinated debt	8,013	107	322	1,711	8,321	10,461
Other liabilities (only financial liabilities)	27,178	25,345	1,833	-	-	27,178
Total	3,567,478	2,603,076	471,192	511,771	12,702	3,598,741

The following table shows the residual maturity of 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.

31 DECEMBER 2016	TOTAL CARRYING AMOUNT € '000	LESS THAN 3 MONTHS € '000	3 MONTHS TO 1 YEAR € '000	1-5 YEARS € '000	MORE THAN 5 YEARS € '000	CONTRACTUAL CASH FLOW TOTAL € '000
Commitments and contingencies						
Guarantees to central banks	179,954	179,954	-	-	-	179,954
Guarantees to customers	28,672	2,118	19,023	7,476	55	28,672
Irrevocable letters of credit	16,800	-	-	16,800	-	16,800
Confirmed credit lines	309,099	309,099	-	-	-	309,099
Total	535,425	491,171	19,023	24,276	55	534,525
Contracted/nominal amount of derivatives						
Currency swaps	389,375	180,506	208,869	-	-	389,375
Hedging derivatives	203,610	10,000	-	114,500	79,110	203,610
Total	592,985	190,506	208,869	114,500	79,110	592,985

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31 DECEMBER 2015	TOTAL CARRYING AMOUNT € '000	LESS THAN 3 MONTHS € '000	3 MONTHS TO 1 YEAR € '000	1-5 YEARS € '000	MORE THAN 5 YEARS € '000	CONTRAC-TUAL CASH FLOW TOTAL € '000
Commitments and contingencies						
Guarantees to central banks	205,503	205,503	-	-	-	205,503
Guarantees to customers	59,298	24,145	11,441	13,294	10,418	59,298
Irrevocable letters of credit	16,800	-	-	16,800	-	16,800
Confirmed credit lines	307,067	307,067	-	-	-	307,067
Total	588,668	536,715	11,441	30,094	10,418	588,668
Contracted/nominal amount of derivatives						
Currency swaps	328,760	328,760	-	-	-	328,760
Hedging derivatives	203,610	-	-	79,500	124,110	203,610
Total	532,370	328,760	-	79,500	124,110	532,370

(d) 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 backtesting

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 hedge 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:

	2016 € ,000	AVERAGE 2016 € ,000	MAXIMUM 2016 € ,000	MINIMUM 2016 € ,000
VaR trading book	4	14	63	1
VaR banking book	1,791	2,368	3,171	1,658
VaR total	1,791	2,372	3,196	1,660
- out of which interest rate risk	1,146	1,941	2,653	779
- out of which credit spread risk	1,520	1,950	2,311	1,512
- out of which foreign exchange risk	4	7	26	1

	2015 € ,000	AVERAGE 2015 € ,000	MAXIMUM 2015 € ,000	MINIMUM 2015 € ,000
VaR trading book	17	57	236	11
VaR banking book	2,423	4,549	8,568	1,890
VaR total	2,423	4,584	8,646	1,889
- out of which interest rate risk	910	2,618	6,365	803
- out of which credit spread risk	2,288	4,267	13,601	1,767
- out of which foreign exchange risk	14	18	136	6

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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 loans with variable rates and including in its investment securities portfolio mostly fixed rates instruments. The Bank continuously uses asset-liability management in its interest risk management. When purchasing bonds, the current interest position of the Bank is taken into account, which then serves as a basis for purchase of fixed or variable bonds. The Bank uses interest swaps to hedge interest rates in fixed bonds in its Available-for-sale portfolio.
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 ORK 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 Bank due to movements in interest rates:

	200 BP PARALLEL INCREASE € ,000	200 BP PARALLEL DECREASE € ,000
31 December 2016		
As at 31 December	(46,804)	(11)
Average for the period	(55,343)	1,895
Maximum for the period	(63,242)	7,773
Minimum for the period	(46,519)	(2,520)
31 December 2015		
As at 31 December	(21,267)	4,095
Average for the period	(49,084)	15,759
Maximum for the period	(68,133)	30,833
Minimum for the period	(17,967)	3,659

The Bank's Economic Value 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 changes 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.

Sensitivity of reported equity to interest rate movements

	200 BP PARALLEL INCREASE € ,000	200 BP PARALLEL DECREASE € ,000
31 December 2016		
As at 31 December	(37,922)	37,922
Average for the period	(41,672)	41,672
Maximum for the period	(43,910)	43,910
Minimum for the period	(37,922)	37,922
31 December 2015		
As at 31 December	(43,532)	58,655
Average for the period	(52,656)	43,532
Maximum for the period	(58,655)	58 655
Minimum for the period	(43,532)	43 532

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Interest rate movements affect reported equity in the following ways:
- Profit for the period arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.
- Revaluation reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity.
- Hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships.

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 allotment 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.

(e) 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, 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 KRI 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.

The department of internal control and 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 forms part of operational risk and is the loss arising 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 the Bank may suffer as a result of a failure to comply with the requirements of generally applicable laws, legal standards, guidelines and standards related to banking activities.

The Compliance Department is responsible for the management of compliance risk.

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 include:

- 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,
- minimalization of the risk related to outsourcing when extraordinary events occur.

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(f) 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 TIER1 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).

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital includes ordinary share capital, share premium, reserve funds and other funds created from profit, retained profit from previous years after deduction of losses for the current year, intangible assets and other specified deductible items.
- Tier 2 capital includes the approved part of subordinated debt with original maturity over five years

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, respectively own Tier I capital.

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

The Bank's position of own funds as at 31 December 2016 according to the Capital Requirement Regulation is displayed in the following table:

	2016 € '000	2015 € '000
Regulatory capital		
Tier I Capital		
Share capital and share premium	367,043	367,043
Reserve funds and other funds created from profit	40,234	34,805
Selected components of accumulated other comprehensive income	10,114	15,216
Profit or loss of previous years	140,447	129,492
Intangible assets	(17,653)	(15,195)
Additional valuation adjustments	(1,667)	(1,519)
Total Tier I Capital	538,518	529,842
Tier II Capital		
Subordinated debt	7,558	8,000
Total Tier II Capital	7,558	8,000
Regulatory capital total	546,076	537,842

Requirements on own funds as at 31 December 2016 and 31 December 2015 in accordance with the Capital Requirement Regulation are displayed in the following table.

CAPITAL RESOURCES REQUIREMENTS	2016 € '000	2015 € '000
Capital required to cover:		
Credit risk	218,291	217,452
Risk on value adjustments to receivables	109	226
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	23	172
Operational risk	29,587	30,930
Total capital requirements	248,010	248,780
Capital ratios		
Total capital level as a percentage of total risk weighted assets	17.61%	17.30%
Tier 1 capital as a percentage of total risk weighted assets	17.37%	17.04%
Tier 1 own capital as a percentage of total risk weighted assets	17.37%	17.04%

6. CASH AND BALANCES AT CENTRAL BANKS

The account Compulsory minimum reserve contains funds from the payment system as well as funds that the Bank is obliged to maintain in average in order to fulfill requirements of the National Bank of Slovakia. Therefore, the account balance of Compulsory minimum reserve may significantly vary depending on the amount of incoming and outgoing payments.

Compulsory minimum reserves are maintained at a level set by requirement of the National Bank of Slovakia. The amount of set reserve depends on the amount of deposits accepted by the Bank and is calculated by multiplying particular items of the basis by the valid rate for calculation of the compulsory minimum reserve.

The Bank, during the reporting period, fulfilled the set amount of compulsory minimum reserves, which in December amounted to € 31,728 thousand.

	2016 € '000	2015 € '000
Cash and balances at central banks		
Balances at central banks	359,134	234,320
Term deposits with contractual maturity of 3 months or less	267,200	207,601
	626,334	441,921
Cash		
Cash in hand	23,742	21,854
Other	9,138	10,606
Total	659,214	474,381

Cash and cash equivalents are as follows:

	2016 € '000	2015 € '000
Cash and balances at central banks - term deposits at central banks with contractual maturity of 3 months or less	267,200	207,601
Cash - Cash in hand	23,742	21,854
Cash - Other	9,138	10,606
Loans and advances to financial institutions – repayable on demand (note 10)	7,372	84,631
Loans and advances to banks – other loans and advances with contractual maturity of 3 months or less (note 10)	35,004	3,233
Total	342,456	327,925

7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2016 € '000	2015 € '000
Financial assets held for trading		
Securities (a)	199	1,556
Derivative instruments (b)	513	550
Total	712	2,106
Financial liabilities held for trading		
Derivative instruments (b)	277	84

a) Securities

	2016 € '000	2015 € '000
European union bonds	-	-
Equity securities	199	1,556
Total	199	1,556

b) Derivative instruments

	2016			2015		
	CONTRACTU-AL/ NOTIO-NAL VALUE	FAIR VALUE		CONTRACTU-AL/ NOTIO-NAL VALUE	FAIR VALUE	
		ASSETS	LIABILITIES		ASSETS	LIABILITIES
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Currency swaps						
Currency swaps	389,375	513	277	328,760	550	84

8. FINANCIAL ASSETS AVAILABLE FOR SALE

	2016 € '000	2015 € '000
Debt securities:		
Slovak government bonds	163,814	205,537
Government bonds of EU member countries	369,345	374,956
Mortgage bonds	53,795	23,558
Corporate bonds	69,199	51,125
	656,153	655,176
Equity securities:		
Equity securities and share certificates	173,119	191,637
Other	224	4,416
	173,343	196,053
Impairment losses for available-for-sale financial assets	(36)	-
Total	829,460	851,229

9. FINANCIAL ASSETS HELD TO MATURITY

	2016 € '000	2015 € '000
Slovak government securities	323,563	440,967
Government bonds of EU member countries	5,105	5,141
Mortgage bonds	20,995	14,990
Total	349,663	461,098

As at 31 December 2016, the Bank pledged securities with a carrying value of € 190,218 thousand (2015: € 231,105 thousand), out of which held-to-maturity amounted to € 166,620 thousand (2015: € 207,547 thousand). As at 31 December 2016, the Bank held pledged transactions with financial institutions.

10. LOANS AND ADVANCES

LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS	2016 € '000	2015 € '000
Repayable on demand	7,372	84,631
Collateral	5,258	-
Other loans and advances to banks by original contractual maturity:		
- 3 months or less	35,004	3,233
Total	47,634	87,864

LOANS AND ADVANCES TO CUSTOMERS	2016 € '000	2015 € '000
Repayable on demand, up to 3 months	237,837	203,639
Other loans and advances to customers by contractual maturity:		
- 1 year or less but over 3 months	47,679	67,562
- 5 years or less but over 1 year	589,177	552,866
- over 5 years	1,311,302	1,242,264
	2,185,995	2,066,331
Allowances for impairment	(170,464)	(134,329)
Total	2,015,531	1,932,002

The movements in impairment losses for loans and advances to customers were as follows:

INDIVIDUAL ALLOWANCES FOR IMPAIRMENT	2016 € '000	2015 € '000
As at 1 January	49,154	65,427
Movements from changes in foreign exchange rates	-	58
Net charge to profit or loss	16,730	36,620
Release of impairment losses on assigned loans	(5,763)	(52,951)
As at 31 December	60,121	49,154

COLLECTIVE ALLOWANCES FOR IMPAIRMENT	2016 € '000	2015 € '000
As at 1 January	85,175	71,080
Movements from changes in foreign exchange rates	(1)	(17)
Net charge to profit or loss	34,364	31,164
Release of impairment losses on assigned loans	(9,195)	(17,052)
As at 31 December	110,343	85,175
Impairment allowances total	170,464	134,329

IMPAIRMENT LOSSES FOR FINANCIAL ASSETS NOT VALUED AT FAIR VALUE THROUGH PROFIT AND LOSS	2016 € '000	2015 € '000
Impairment loss for loans and receivables	(51,094)	(67,784)
Write off of loans and receivables	14,959	70,003
Income from write off of loans and receivables	(14,380)	(71,970)
Impairment loss for financial assets available for sale	(36)	-
	(50,551)	(69,751)

DEBT SECURITIES	2016 € '000	2015 € '000
Corporate bonds	116,823	144,179
Bill of exchange	85,535	85,397
Total	202,358	229,576

11. HEDGING DERIVATIVES

Hedged items are selected fixed-interest bonds from the financial assets available for sale portfolio and hedging instruments are interest rate swaps for which the Bank pays fixed interest rate and receives floating interest rate. As at 31 December 2016, the hedge was effective in hedging the fair value exposure to interest rate movements. 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 bonds caused by changes in interest rates.

In 2016, the Bank reported a net loss on the hedging instruments in the amount of € 3,733 thousand (2015: € profit 1,130 thousand) and a net gain on the hedged items relating to hedged risk of € 3,733 thousand (2015: loss € 1,130 thousand). Both items are presented on the line „Net profit from financial operations".

During 2016, interest and similar income from hedged securities from the Financial assets available for sale since the origin date of hedging, amounting to € 4,318 thousand (2015: € 181 thousand) were offset by interest expense from interest rate swaps which represent hedging instruments in the amount of € 893 thousand (2015: € 102 thousand).

The contracted or notional amounts and positive and negative fair values of unpaid positions of hedging derivatives as at 31 December 2016 are shown in the following table. The contracted or nominal 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.

HEDGING DERIVATIVES	2016 € '000	2015 € '000
Hedging derivatives - assets	-	1,242
Hedging derivatives - liabilities	5,063	312

	2016			2015		
	CONTRACTUAL/ NOTIONAL VALUE	FAIR VALUE		CONTRACTUAL/ NOTIONAL VALUE	FAIR VALUE	
		ASSETS	LIABILITIES		ASSETS	LIABILITIES
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Hedging derivatives						
Interest rate swaps	203,610	-	5,063	203,610	1,242	312

12. INVESTMENTS IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATE

	2016 € '000	2015 € '000
PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s. and subsidiaries („PPSS")	9,230	9,230
Poštová poisťovňa, a.s.	9,129	9,129
Dôchodková správcovská spoločnosť Poštovej banky, d. s. s., a. s.	14,500	14,500
PB Servis, a.s.	55	55
PB Partner, a.s.	4,603	2,803
SPPS, a.s.	140	140
PB Finančné služby, a.s.	4,615	4,615
PB IT, a.s. in liquidation	55	55
ART FOND – Stredoeurópsky fond súčasného umenia, a.s.	198	-
	42,525	40,527
Impairment losses on subsidiary PB Partner, a.s	(986)	(986)
Total	41,539	39,541

The investment in PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a.s. ('PPSS') comprises a 100% share in the share capital of the company. PPSS is a company incorporated in the Slovak Republic, which is engaged in asset management.

The investment in Poštová poisťovňa, a.s. (previously - Poisťovňa Poštovej banky, a. s., renamed as at 18 May 2015), which the Bank acquired in 2008 with a 100 % share in the share capital of the company, provides life and non-life insurance services. Poštová banka, a.s. (seller) and Slovenská pošta, a.s. (buyer) agreed on a transfer of 2% of the ordinary shares of Poisťovňa Poštovej banky, a. s. as at 5 May 2015. Poisťovňa Poštovej banky, a. s. was renamed to Poštová poisťovňa, a.s.

On 17 May 2011, the Bank acquired a 100% share of the share capital of ČSOB d.s.s., (renamed to Dôchodková správcovská spoločnosť Poštovej banky, d.s.s, a.s.). The principal activity of the company is pension fund management.

On 15 June 2011 POBA Servis, a. s. was established and 100% of the is are owned by the Bank. The company provides services relating to real estate management, registry services and supplementary bank services. As at 8 December 2016, POBA Servis, a.s. was renamed to PB Servis, a.s.

In 2009, PPSS established a wholly-owned subsidiary PB Partner a.s., a company incorporated in Slovakia, which is engaged in financial intermediary activities. On 15 July 2010, the Bank purchased a 100% of the share capital of the company PB PARTNER, a.s. from PPSS. The Bank as a 100% shareholder on 27 May 2014 decided to increase the share capital of the company PB PARTNER, a.s. by € 2,000 thousand. The Bank as a 100% shareholder on 10 May 2016 decided to further increase the share capital of the company PB PARTNER, a.s. by € 1,800 thousand.

The Bank assessed its share in PB PARTNER and based on planned and achieved results recorded an impairment loss on impairment of the share. Impairment losses in the amount of€ 986 thousand were created in 2015 and the amount has not changed as at 31 December 2016.

On 10 February 2012 Poštová banka, a.s. with a 40% share of share capital and Slovenská pošta, a.s. with a 60% share of share capital established a jointly controlled entity SPPS, a.s. The company provides modern payment services. The Bank as at 30 June 2014 decided to increase the share capital of the company SPPS, a.s. by € 54 thousand.

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On 17 July 2012, the Bank purchased the remaining 92.16% share in Auto Leas a.s. and became 100% shareholder of this company. The principal activity of the company, which was renamed to PB Finančné služby, a.s., is financial and operational leasing and factoring.

On 10 December 2013 the Bank founded a subsidiary PB IT, a.s. with 100% share on its equity. The company was established on 17 January 2014 by registration in the Business Register. PB IT, a.s. provides mainly services relating to IT maintenance, internal development services and IT project management for Poštová banka, a.s. group.

The Bank, as a 100% shareholder of PB IT at 7 December 2016 decided to dissolve PB IT without legal successor as at 1 January 2017 and enter liquidation as at 1 January 2017.

The Bank as at 24 February 2016 purchased a 27.69% share in the share capital of ART FOND – Stredoeurópsky fond súčasného umenia, a.s.

As at 1 October 2016, the Bank acquired part of the business of the PB IT, as. in liquidation („PB IT"). A part of this transaction was the transfer of selected assets, contracts and rights, liabilities (apart from liabilities from income tax and VAT) and employees related to the activities of PB IT in Slovakia. PB IT provided IT services. The Bank, as a 100% shareholder of PB IT, decided on 7 December 2016 to dissolve PB IT without a legal successor as of 1 January 2017 and the start of liquidation as of 1 January 2017.

The reason of this transaction was to implement PB IT activities under one management and one company while synergy effects are expected between the Bank's activities and activities which were provided by PB IT.

The Bank, in accounting for this business combination involving entities under common control, used the pooling of interests method, so that the financial information for periods prior to the business combination have not been restated and the income statement for the year ended 31 December 2016 includes the result for the merged companies after the date of the business combination. The assets and liabilities of PB IT were transferred at their book values as of the day preceding the date of the business combination into the Bank's accounting. The difference between the acquisition price (€ 136 thousand) and the value of acquired net assets (€ 232 thousand) was recorded through the Bank's equity (€ 96 thousand). Expenses related with the transaction were recorded as expense.

The following assets and liabilities were acquired from PB IT under the transaction:

	€ '000
Assets	
Loans and advances to financial institutions	411
Tangible assets	13
Intangible assets	1
Other assets	547
Total assets	972
Liabilities	
Other liabilities	740
Total liabilities	740
Total net assets	232
Acquisition price	136

The Bank has not Restated the book values of PB IT as of 1 October 2016 as the accounting principles were not significantly different from the accounting principles used by the Bank.

The result from the acquisition of the PB IT is presented in the Separate statement of changes in equity in the line Acquisition of PB IT, a.s. in liquidation.

13. TANGIBLE ASSETS

	LAND AND BUILDINGS € '000	FURNITURE, FITTINGS AND EQUIPMENT € '000	MOTOR VEHICLES € '000	ASSETS NOT YET IN USE € '000	TOTAL € '000
Cost					
As at 1 January 2016	11,858	22,580	479	728	35,645
Additions from acquisition of PB IT	-	32	-	(32)	-
Additions	-	-	-	2,139	2,139
Transfers	24	2,269		(2,293)	-
Disposals	(1,391)	(3,129)	(36)	-	(4,556)
As at 31 December 2016	10,491	21,752	443	542	33,228
Accumulated depreciation					
As at 1 January 2016	(5,881)	(16,895)	(466)	-	(23,242)
Additions from acquisition of PB IT	-	(19)	-	-	(19)
Depreciation for the year	(275)	(2,399)	(9)	-	(2,683)
Residual value of disposed assets and operational records	(332)	(21)			(353)
Disposals	1,378	3,129	32		4,539
As at 31 December 2016	(5,110)	(16,205)	(443)	-	(21,758)
Impairment loss	(1,423)	-	-	-	(1,423)
Net book value					
As at 31 December 2016	3,958	5,547	-	542	10,047

	LAND AND BUILDINGS € '000	FURNITURE, FITTINGS AND EQUIPMENT € '000	MOTOR VEHICLES € '000	ASSETS NOT YET IN USE € '000	TOTAL € '000
Cost					
As at 1 January 2015	17,257	21,417	685	805	40,164
Additions	-	-	-	2,021	2,021
Transfers	120	2,065	9	(2,091)	103
Lost investment	-	-	-	(7)	(7)
Disposals	(5,519)	(902)	(215)	-	(6,636)
As at 31 December 2015	11,858	22,580	479	728	35,645
Accumulated depreciation					
As at 1 January 2015	(11,081)	(15,235)	(609)	-	(26,925)
Depreciation for the year	(1,045)	(1,897)	(55)	-	(2,997)
Disposals	6,245	237	198		6,680
As at 31 December 2015	(5,881)	(16,895)	(466)	-	(23,242)
Impairment loss	(686)	-	-	-	(686)
Net book value					
As at 31 December 2015	5,291	5,685	13	728	11,717

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Movements in impairment losses were as follows:

	2016 € '000	2015 € '000
As at 1 January	686	-
Impairment loss on tangible assets	737	686
As at 31 December	1,423	686

The Bank uses fully depreciated tangible assets with an acquisition cost of € 11,753 thousand (2015: € 10,986 thousand) as at 31 December 2016.

Tangible assets are insured against natural disasters, malicious damage, theft and robbery. Motor vehicles are insured through motor third-party liability and casco insurance. Tangible assets are insured up to € 9,506 thousand (2015: € 11,915 thousand). The Bank's property is not pledged.

14. INTANGIBLE ASSETS

	SOFTWARE € '000	ASSETS NOT YET IN USE € '000	TOTAL € '000
Cost			
As at 1 January 2016	43,543	1,681	45,224
Additions from acquisition of PB IT	3	(3)	-
Additions	-	6,559	6,559
Transfers	3,940	(3,940)	-
Disposals	-	-	-
As at 31 December 2016	47,486	4,297	51,783
Accumulated amortization			
As at 1 January 2016	(30,029)	-	(30,029)
Additions from acquisition of PB IT	(2)	-	(2)
Amortization for the year	(4,099)	-	(4,099)
Disposals	-	-	-
K 31. decembru 2016	(34,130)	-	(34,130)
Net book value			
As at 31 December 2016	13,356	4,297	17,653

	SOFTWARE € '000	ASSETS NOT YET IN USE € '000	TOTAL € '000
Cost			
As at 1 January 2015	38,181	2,045	40,226
Additions	-	4,998	4,998
Transfers	5,362	(5,362)	-
Disposals	-	-	-
As at 31 December 2015	43,543	1,681	45,224
Accumulated amortization			
As at 1 January 2015	(26,430)	-	(26,430)
Amortization for the year	(3,599)	-	(3,599)
Disposals	-	-	-
As at 31 December 2015	(30,029)	-	(30,029)
Net book value			
As at 31 December 2015	13,514	1,681	15,195

The Bank uses fully amortized intangible assets with an acquisition cost of € 22,104 thousand (2015: € 19,221 thousand) as at 31 December 2016.

15. DEFERRED TAX ASSET AND LIABILITY

Recognized deferred tax asset and liability

The deferred tax asset and deferred tax liabilities of the Bank are calculated using a corporate income tax rate of 21% (2015: 22%) and are as follows

DEFERRED TAX ASSET	ASSETS/ (LIABILITIES) 2016 € '000	ASSETS/ (LIABILITIES) 2015 € '000
Tangible assets	(375)	(501)
Bonuses	869	648
Impairment losses on receivables	10,729	8,110
Impairment losses on non-financial assets	125	47
Impairment losses on investments in subsidiaries, JVs, associates, ...	207	217
Discount on assigned receivables	167	395
Discount on rental contracts	40	50
Discount on sale of shares	-	8
Provisions	306	431
Other	1,297	1,524
Investment securities available for sale	(2,852)	(4,460)
Tax losses not utilized	3,348	7,227
Total	13,861	13,696

The deferred tax asset and deferred tax liabilities for the Branch in the Czech Republic (calculated using tax rate of 19%) are as follows:

DEFERRED TAX ASSET	ASSETS/ (LIABILITIES) 2016 € '000	ASSETS/ (LIABILITIES) 2015 € '000
Tangible assets	(1)	(2)
Bonuses	16	11
Total	15	9

MOVEMENTS IN DEFERRED TAX	2016 € '000	2015 € '000
As at 1 January	13,705	21,838
Through profit or loss (note 30)	(1,437)	(5,310)
Charged to other comprehensive income	1,608	(2,823)
As at 31 December	13,876	13,705

16. OTHER ASSETS

	2016 € '000	2015 € '000
Other debtors	48,540	13,671
Deferred expenses	15,043	15,626
Prepayments	3,609	8,130
Other	1,977	86
Accrued income	427	406
Items in the course of clearing from post offices	421	9,717
Inventory	343	313
Receivables from subsidiary	134	-
Receivable from transfer of business share	-	3,345
	70,494	51,294
Allowances for impairment	(2,367)	(424)
Total	68,127	50,870

Items from clearing from post offices comprise deposits and other transactions of the Bank's customers that have been made in post offices and not received by the Bank at the end of the reporting period. Generally, these items clear within three days.

The movements in allowances for impairment were as follows:

	2016 € '000	2015 € '000
As at 1 January	424	97
Impairment loss on other assets	1,943	339
Other assets write offs	-	(12)
As at 31 December	2,367	424

17. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST

FINANCIAL LIABILITIES TO FINANCIAL INSTITUTIONS	2016 € '000	2015 € '000
Repayable on demand	4,062	2,590
Collateral	180	1,340
Total	4,242	3,930

FINANCIAL LIABILITIES TO CUSTOMERS	2016 € '000	2015 € '000
Repayable on demand	1,630,297	1,518,311
Other deposits with contractual maturity dates or periods of notice, by original contractual maturity:		
- up to 3 months	984,089	1,031,521
- 3 months 1 year	396,847	359,953
- 1 year 5 years	583,721	617,257
- above 5 years	1,063	1,315
Total	3,596,017	3,528,357

SUBORDINATED DEBT	2016 € '000	2015 € '000
Subordinated debt	8,000	8,000
Accrued interest	13	13
Total	8,013	8,013

The Bank entered into a subordinated debt agreement with J&T BANKA, a.s. on 21 September 2011 for € 8,000 thousand. This loan will mature in 2021 and bears interest of 5.34% p.a. In the event of bankruptcy or liquidation of the Bank, the loan will be subordinated to the claims of all other creditors of the Bank.

18. PROVISIONS FOR OFF BALANCE SHEET LIABILITIES

Provisions were created for off balance sheet liabilities. The movements in provisions were as follows:

	2016 € '000	2015 € '000
As at 1 January	1,960	66
Creation of provision	449	2,038
Release of provision	(954)	(144)
As at 31 December	1,455	1,960

19. OTHER LIABILITIES

	2016 € '000	2015 € '000
Other creditors	23,004	22,282
Liabilities to employees	3,895	4,888
VAT, payroll and other tax liabilities	1,632	1,170
Withholding taxes payable	985	1,469
Accruals	234	207
Advances received	220	221
Liability to shareholders	18	8
Other	7	228
Total	29,995	30,473

20. SHARE CAPITAL

a) 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.

b) Revaluation of Financial assets available for sale and hedging derivatives
Revaluation of financial assets available for sale and hedging derivatives represents the cumulative net change in the fair value of available-for-sale investment securities including hedging derivatives effect net of deferred tax.

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

d) Proposed allocation of the 2016 profit
Poštová banka, a.s. achieved a profit of € 49,254 thousand for the year ended 31 December 2016. The Board of Directors will propose the distribution of profit for the year ended 31 December 2016 as allocation to Legal reserve fund of € 4,925 thousand, dividends and allocation to retained earnings. The distribution of profit for the year ended 31 December 2016 is subject to the approval of the shareholders at General meeting. The amounts of dividends and allocation to returned earnings have not yet been approved by the shareholders at General meeting.

e) Dividends for 2015
The General Meeting of shareholders held on 25 May 2016 decided that dividends will be paid to shareholders in amount of € 38,005 thousand.

21. CONTINGENCIES, COMMITMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

	2016 € '000	2015 € '000
Contingencies:		
Guarantees to customers	28,672	59,298
Guarantees to banks	179,954	205,503
Irrevocable letters of credit	16,800	16,800
Other commitments:		
Confirmed credit lines	309,999	307,067
Derivative financial instruments		
Liabilities from trading derivatives (note 7)	389,375	328,760
Liabilities from hedging derivatives (note 11)	203,610	203,610
Total	1,128,410	1,121,038

The breakdown of contingencies and commitments by country is as follows:

	31 DECEMBER 2016			31 DECEMBER 2015		
	GUARANTEES TO CLIENTS € '000	IRREVOCABLE LETTERS OF CREDITS € '000	CONFIRMED CREDIT LINES € '000	GUARANTEES TO CLIENTS € '000	IRREVOCABLE LETTERS OF CREDITS € '000	CONFIRMED CREDIT LINES € '000
Slovak Republic	201,211	16,800	198,258	252,784	16,800	276,885
Czech Republic	2,604	-	111,725	7,206	-	30,162
European Union countries	4,811	-	10	4,811	-	14
Other European countries	-	-	6	-	-	6
Total	208,626	16,800	309,999	264,801	16,800	307,067

The breakdown of contingencies and commitments by sector is as follows:

	31 DECEMBER 2016			31 DECEMBER 2015		
	GUARANTEES TO CLIENTS € '000	IRREVOCABLE LETTERS OF CREDITS € '000	CONFIRMED CREDIT LINES € '000	GUARANTEES TO CLIENTS € '000	IRREVOCABLE LETTERS OF CREDITS € '000	CONFIRMED CREDIT LINES € '000
Central bank and banks	179,954	-	-	205,503	-	1,300
Energy	-	-	50,000	5,686	-	-
Telecommunications	-	-	-	15,350	-	-
Wholesale	2,994	-	4,305	3,017	-	36,798
Retail	-	-	1,992	-	-	9,526
Manufacturing	1,500	-	3,790	-	-	12,005
Construction	3,000	-	4,994	11,664	-	6,339
Services and goods sale	928	16,800	91,880	3,394	16,800	49,802
Financial services	20,175	-	32,632	20,162	-	57,724
Healthcare	25	-	78	25	-	79
Rent	50	-	17,300	-	-	27,856
Households	-	-	103,028	-	-	105,638
Total	208,626	16,800	309,999	264,801	16,800	307,067

22. NET INTEREST INCOME

INTEREST INCOME	2016 € '000	2015 € '000
Deposits at the Central bank	225	69
Financial assets held for trading	26	330
Financial assets available for sale	7,143	11,276
Financial assets held to maturity	13,312	20,242
Loans and advances, out of which:	170,347	190,636
Loans and advances to financial institutions	336	9
Loans and advances to customers	152,472	178,017
Debt securities	17,539	12,610
Hedging derivatives – interest risk	(893)	(102)
Other	38	38
Total	190,198	222,489

Accrued interest for impaired loans of € 7,993 thousand for the period ended 31 December 2016 (2015: € 12,403 thousand) is also included in the interest income caption. The bank does not recognize accrued interest for defaulted loans.

INTEREST EXPENSE	2016 € '000	2015 € '000
Financial liabilities valued at amortized cost, out of which:	(26,468)	(37,287)
Financial liabilities to financial institutions	(360)	-
Financial liabilities to customers	(25,679)	(36,558)
Debt securities and bills of exchange	-	(302)
Subordinated debt	(429)	(427)
Other	(36)	(50)
Total	(26,504)	(37,337)
Net interest income	163,694	185,152

23. NET FEE AND COMMISSION INCOME

FEE AND COMMISSION INCOME	2016 € '000	2015 € '000
Administration and custody of securities	1,363	1,268
Loans, credit limits, guarantees and letters of credit	4,074	5,248
Clearing operations - banks	2,114	2,971
Payments and accounts administration	26,727	29,793
Other	10,255	10,128
Total	44,533	49,408

FEE AND COMMISSION EXPENSE	2016 € '000	2015 € '000
Administration and custody of securities	(145)	(233)
Other transaction and settlement fees	(23,176)	(27,180)
Total	(23,321)	(27,413)
Net fee and commission income	21,212	21,995

24. DIVIDEND INCOME

	2016 € '000	2015 € '000
Dividend income from investments in subsidiaries, jointly controlled entity and associate	8,569	7,694
Dividend income from available for sale financial assets	3,503	-
Total	12,072	7,694

25. NET TRADING INCOME

	2016 € '000	2015 € '000
Foreign currency transactions	2,223	4,030
Results from hedging interest rates derivatives	(3,733)	1,130
Results from hedged items – financial assets available for sale	3,733	(1,130)
Net profit from disposed financial assets and liabilities not valued at fair value through profit and loss	5,985	7,694
Net loss from financial assets and liabilities valued at fair value through profit and loss	(1,171)	(1,862)
Net profit from financial assets and liabilities held for trading	87	2,447
Total	7,124	12,309

26. NET OTHER OPERATIONAL EXPENSES

	2016 € '000	2015 € '000
Special levy for banking institutions	(7,246)	(7,183)
Resolution fund	(661)	(1,573)
Deposit protection fund	(1,089)	(901)
Total	(8,996)	(9,657)
Shortages and damages	(152)	(126)
Other	1,485	1,124
Net (loss)/profit from disposals of tangible assets	(246)	67
Rental	38	52
Reimbursements received	49	28
Total	1,174	1,145
Total	(7,822)	(8,512)

27. ADMINISTRATIVE EXPENSES

	2016 € '000	2015 € '000
Wages and salaries (including bonuses)	(23,796)	(21,011)
Social expenses	(8,610)	(7,417)
Personnel costs	(32,406)	(28,428)
Services	(17,679)	(18,484)
Operating expenses	(1,016)	(631)
Marketing expenses	(4,684)	(4,524)
Rent	(7,431)	(7,187)
Material expenses	(1,457)	(1,544)
Other administrative expenses	(1,198)	(1,042)
Other services	(1,858)	(2,664)
Total	(67,729)	(64,504)

	2016	2015
Average number of employees for the period	891	841
of which, management	27	15

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

	2016 € '000	2015 € '000
Audit (including regulatory assurance services)	(366)	(366)

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

	2016 € '000	2015 € '000
Up to 1 year	4,279	3,769
1-5 years	238	14
Over 5 years	-	-
Total	4,517	3,783

28. DEPRECIATION AND AMORTIZATION

	2016 € '000	2015 € '000
Tangible assets (note 13)	(2,702)	(2,997)
Intangible assets (note 14)	(4,101)	(3,599)
Total	(6,803)	(6,596)

29. IMPAIRMENT LOSS AND CREATION OF PROVISIONS

	2016 € '000	2015 € '000
Impairment loss on financial assets not valued at fair value through profit and loss	(50,551)	(69,751)
Loans and advances(note 10)	(50,515)	(69,751)
Financial assets available for sale (note 8)	(36)	-
Impairment loss on investments in subsidiary, jointly controlled entity and associate (note 12)	-	(986)
Impairment loss on non-financial assets	(2,680)	(1,025)
Tangible assets (note 13)	(737)	(686)
Other assets (note 16)	(1,943)	(339)
Release/(creation) of provisions (note 18)	505	(1,894)
Total	(52,726)	(73,656)

30. INCOME TAX

	2016 € '000	2015 € '000
Current income tax expense, out of which:	(18,331)	(14,279)
Current year	(18,253)	(14,133)
Correction of previous period	(78)	(146)
Deferred tax (note 15)	(1,437)	(5,310)
Total	(19,768)	(19,589)

Current income tax expense is calculated on the Bank's taxable profit for the year at a rate of 22% (2015: 22%). Deferred tax as at 31 December 2016 was calculated using the rate of 21% valid from 1 January 2017 (2015: 22%, rate valid until 31 December 2016).

Deferred tax and current income tax expense for the Czech branch was calculated using a rate of 19% in 2016 and 2015.

RECONCILIATION OF THE EFFECTIVE TAX RATE:	TAX BASE 2016 € '000	TAX AT 22% 2016 € '000	TAX BASE 2015 € '000	TAX AT 22% 2015 € '000
Profit before taxation	69,022	15,185	73,882	16,254
Tax deductible items:				
Dividend income	(8,569)	(1,885)	(7,694)	(1,693)
Difference between tax and accounting depreciation			-	-
Bonuses and provisions	(3,025)	(666)	(3,249)	(715)
Other provisions	(7,872)	(1,732)	(144)	(32)
Income from write off of receivables	(684)	(150)	(1,047)	(230)
Release of impairment loss allowances	(3,728)	(820)	(48,407)	(10,650)
Other	(323)	(71)	(3,502)	(770)
	(24,201)	(5,324)	(64,043)	(14,090)
Tax non-deductible items:				
Impairment losses on loans and advances to clients	39,044	8,590	54,510	11,992
Difference between tax and accounting depreciation	495	109	219	48
Bonuses and provisions	4,237	932	3,254	716
Other provisions	6,463	1,422	8,955	1,970
Other	3,852	847	3,891	856
	54,091	11,900	70,829	15,582
Income tax expense before utilizing tax		21,761		17,746
Losses carried forward –use		(3,508)		(3,613)
Correction of previous period		(703)		(711)
Tax payable		17,550		13,422
Withholding tax		-		-
Tax paid abroad		703		711
Correction of previous period		78		146
Deferred tax		1,437		5,310
Total income tax		19,768		19,589
Effective tax rate		28.64%		26,51%

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. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES AND HEDGING DERIVATIVES

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

31 DECEMBER 2016 (€ '000)	VALUES, GROSS	OFFSET GROSS VALUES	PRESENTED VALUES, NET	POSSIBLE EFFECT OF „MASTER NETTING AGREEMENTS" WHICH DO NOT FULFILL REQUIREMENTS FOR OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			NET VALUES AFTER POSSIBLE OFFSET-TING
				FINANCIAL INSTRU-MENTS	CASH COLLATE-RAL	NON-CASH FINANCIAL COLLATE-RAL	
Financial assets							
Currency derivatives	513	-	513	-	513	-	-
Hedging derivatives	-	-	-	-	-	-	-
Total assets	513	-	513	-	513	-	-
Financial liabilities							
Currency derivatives	277	-	277	-	277	-	-
Hedging derivatives	5,063	-	5,063	-	3,294	-	1,769
Total liabilities	5,340	-	5,340	-	3,571	-	1,769

31 DECEMBER 2015 (€ '000)	VALUES, GROSS	OFFSET GROSS VALUES	PRESENTED VALUES, NET	POSSIBLE EFFECT OF „MASTER NETTING AGREEMENTS" WHICH DO NOT FULFILL REQUIREMENTS FOR OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			NET VALUES AFTER POSSIBLE OFFSET-TING
				FINANCIAL INSTRU-MENTS	CASH COLLATE-RAL	NON-CASH FINANCIAL COLLATE-RAL	
Financial assets							
Currency derivatives	550	-	550	-	484	-	66
Hedging derivatives	1 242	-	1 242	-	1 242	-	-
Total assets	1 792	-	1 792	-	1 726	-	66
Financial liabilities							
Currency derivatives	84	-	84	-	17	-	67
Hedging derivatives	312	-	312	-	-	-	-
Total liabilities	396	-	396	-	17	-	67

32. 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. Related parties include subsidiaries and jointly controlled entity, as well as key management personnel and their close persons.

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

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31 DECEMBER 2016 (€ '000)	SHAREHOL-DERS	COMPANIES RELATED TO SHARE-HOL-DERS	SUBSIDIA-RIES	JOINTLY CONTROL-LED ENTITY	ASSOCIA-TES	KEY MA-NAGEMENT PERSONNEL (KMP)	RELATED PARTIES TO KMP	OTHERS
ASSETS								
Financial assets held for trading	-	281	-	-	-	-	-	-
Financial assets available for sale	-	23,785	-	-	-	-	-	1,151
Loans and advances	14	194	53,452	-	-	51	-	15,063
Loans and advances to financial institutions	-	194	-	-	-	-	-	-
Loans and advances to customers	14	-	53,452	-	-	51	-	15,063
Other assets	-	17	2,595	412	-	-	-	-
LIABILITIES								
Financial liabilities held for trading	-	124	-	-	-	-	-	-
Financial liabilities at amortized cost	-	10,161	23,005	1,691	-	849	95	1,659
Deposits by banks	-	2,148	-	-	-	-	-	-
Customer accounts	-	-	23,005	1,691	-	849	95	1,659
Subordinated debt	-	8,013	-	-	-	-	-	-
Other liabilities	-	3	2,631	57	-	-	-	-
INCOME/ EXPENSES								
Net interest income	591	181	(3,487)*	(1)	-	1	-	832
Net income from fees and commissions	26	1	1,187	378	-	3	-	71
Net trading income	-	(113)	-	-	-	-	-	-
Net other operating income/ (expenses)	-	9	499	55	1	-	-	-
Administrative expenses	-	(19)	(8,426)	-	-	(3,472)	-	-

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

31 DECEMBER 2015 (€ '000)	SHAREHOL-DERS	COMPANIES RELATED TO SHARE-HOL-DERS	SUBSIDIA-RIES	JOINTLY CONTROL-LED ENTITY	ASSOCIA-TES	KEY MA-NAGEMENT PERSONNEL (KMP)	RELATED PARTIES TO KMP	OTHERS
ASSETS								
Financial assets held for trading	468	-	-	-	-	-	-	1,140
Financial assets available for sale	-	-	-	-	-	-	-	-
Loans and advances	30,141	32	50,386	-	-	-	-	-
Loans and advances to financial in-stitutions	30,141	32	-	-	-	-	-	-
Loans and advances to customers	-	-	50,386	-	-	-	-	-
Other assets	8	-	10,612	449	-	-	-	-
OTHER ASSETS								
Financial liabilities held for trading	17	-	-	-	-	-	-	-
Financial liabilities at amortized cost	10,141	-	21,739	1,070	-	793	247	2,727
Financial liabilities to financial institutions	110	-	-	-	-	-	-	-
Customer accounts	2,018	-	21,739	1,070	-	793	247	2,727
Subordinated debt	8,013	-	-	-	-	-	-	-
Other liabilities	-	2	859	179	-	-	-	-
INCOME/ EXPENSES								
Net interest income	(427)	2,101	1,076	-	-	-	(5)	4,031
Net income from fees and commissions	(7)	-	(1,313)	52	-	3	1	1,861
Net trading income	(1,481)	-	-	-	-	-	-	-
Net other operating income/ (expenses)	67	8	143	336	-	-	-	(14)
Administrative expenses	-	(13)	(11,348)	(1,723)	-	(2,294)	-	-

Total remuneration and bonuses paid to members of the Supervisory board and Board of directors in 2016 was € 3,472 thousand (2015: € 2,028 thousand).

33. CUSTODIAL SERVICES

The Bank administers assets received into its custody from customers totaling € 299,776 thousand (2015: € 218,627 thousand). The assets comprise securities and other valuables.

34. FAIR VALUES

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

31 DECEMBER 2016	CARRYING VALUE € '000	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000	FAIR VALUE € '000
Financial assets					
Cash and balances with central banks	659,214	-	659,214	-	659,214
Financial assets held to maturity	349,663	-	389,793	-	389,793
Loans and advances	2,265,523	-	47,634	2,271,815	2,319,449
Loans and advances to financial institutions	47,634	-	47,634	-	47,634
Loans and advances to customers	2,015,531	-	-	2,069,830	2,069,830
Debt securities	202 358	-	-	201,985	201,985
Investments in subsidiaries, jointly controlled entity and associate	41,539	-	41,539	-	41,539
Other assets (only financial assets)	48,138	-	48,138	-	48,138
Financial liabilities					
Financial liabilities at amortized cost	3,608,272	-	3,610,454	-	3,610,454
Financial liabilities to financial institutions	4,242	-	4,242	-	4,242
Financial liabilities to customers	3,596,017		3,597,368	-	3,597,368
Subordinated debt	8,013	-	8,844	-	8,844
Other liabilities (only financial liabilities)	26,846	-	26,846	-	26,846

31 DECEMBER 2015	CARRYING VALUE € '000	LEVEL 1 € '000	LEVEL 2 € '000	LEVEL 3 € '000	FAIR VALUE € '000
Financial assets					
Cash and balances with central banks	474,381	-	474,381	-	474,381
Financial assets held to maturity	461,098	-	517,061	-	517,061
Loans and advances	2 249,442	-	87,864	2 312 323	2,400,187
Loans and advances to financial institutions	87,864		87,864		87,864
Loans and advances to customers	1,932,002	-	-	2 065 577	2,065,577
Debt securities	229,576	-	-	246 746	246,746
Investments in subsidiaries, jointly controlled entity and associate	39,541	-	39,541	-	39,541
Other assets (only financial assets)	26,733	-	26,733	-	26,733
Financial liabilities					
Financial liabilities at amortized cost	3,540,300	-	3,554,989	-	3,554,989
Financial liabilities to financial institutions	3,930	-	3,930	-	3,930
Financial liabilities to customers	3,528,357	-	3,542,219	-	3,542,219
Subordinated debt	8,013	-	8,840	-	8,840
Other liabilities (only financial liabilities)	27,178	-	27,178	-	27,178

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

Cash and balances at the central banks
Cash and balances at the central banks represent short-term assets with maturity less than three months. Fair value of cash and balances at the central banks is identical to accounting value.

Financial assets held to maturity
The fair values of held-to-maturity investment securities are calculated using quoted market prices. When quoted prices are not available, securities are valued by discounting future cash flows using the capital asset pricing model.

Loans and advances
Loans and advances are stated net of allowances for impairment. For loans and advances to customers with a remaining maturity of less than three months, it is reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to customers are calculated by discounting the future cash flows using current market rates and an estimate of current risk margins.

Investments in subsidiaries, jointly controlled entity and associate
The investments in subsidiaries, jointly controlled entity and associate are valued by discounting future cash flows expected to be generated by the subsidiaries, jointly controlled entity and associate. Based on Bank's valuation, the fair value of investments in subsidiaries, joint ventures and associates was not significantly different from their carrying value, therefore for the amounts recognized as at 31 December 2016,the book value equals the fair value.

Other assets (only financial)
Other assets include short-term assets with maturity up to three months. The fair value of other assets is the same as its carrying amount.

Financial liabilities to financial institutions
The fair value of current accounts with other banks approximates to book value. For other amounts owed to banks with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other financial liabilities to financial institutions are calculated by discounting the future cash flows using current interbank rates.

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

Loans received
Fair values of loans are calculated by discounting future cash flows using effective interbank rates. For received loans with a remaining maturity of less than three months, it is reasonable to regard their book value as approximate fair value.

Subordinated debt
The fair values of subordinated debt are calculated by discounting the future cash flows using current market rates and an estimate of current risk margins.

Other liabilities (only financial)
Other liabilities include short-term liabilities with maturity up to three months. The fair value of other assets is the same as its carrying amount.

35. INFORMATION ON EVENTS OCCURRING BETWEEN THE BALANCE SHEET DATE AND THE DATE OF PREPARATION OF FINANCIAL STATEMENTS

No events with a material impact and that would require adjustment or disclosure in the Financial Statements as at 31 December 2016 occurred after the date of preparation of the Financial Statements.

10. BRANCH NETWORK

LIST OF BUSINESS PLACES – THE BRANCHES OF POŠTOVÁ BANKA

BRANCH	ADDRESS	POSTAL CODE
BA - Odborárske nám	Odborárske nám.2	841 05
BA - River Park	Dvořákovo nábrežie 4	811 01
BA - Skybox	Pajštúnska 7	842 64
BA - Tomášikova	Tomášikova 21	811 07
BA – Dlhé Diely	Ľ.Fullu 3	811 01
BA – Gorkého	Gorkého 3	831 06
BA – Karlova Ves	Karloveská 34	821 01
BA – Nám. SNP	Nám. SNP 35	851 01
BA – Rača	Čachtická 25	851 02
BA – Vlast. nám.	Vlastenecké námestie č.4	901 01
Bánovce nad Bebravou	Námeste Ľudovíta Štúra 8/8B	902 01
Banská Bystrica	Dolná 62	909 01
Bardejov	Hviezdoslavova 3	917 01
Brezno	Námestie M.R.Štefánika 7	811 02
Dubnica nad Váhom	Nám. Matice slovenskej 12/1298	984 01
Dunajská Streda	Bacsákova ul.	085 01
Galanta	sídlisko Jas č.5 (OC JASPARK)	066 01
Humenné	Nám. Slobody 3	040 11
Komárno	Mederčská 4987/4	040 01
Košice 1	Toryská 3	071 01
Košice 2	Štúrova 1 (OD Dargov)	058 01
Levice	P.O. Hviezdoslava 2/A	080 01
Liptovský Mikuláš	Ulica 1.mája 41	048 01
Lučenec	T.G. Masaryka 19	052 01
Malacky	Zámocká 8	075 01
Martin	Andreja Kmeťa 5397/23	093 01
Michalovce	ul. kpt. Nálepku 26	974 01
Nitra 1	Štefánikova trieda 65	977 01
Nitra 2	Sládkovičova 1	929 01
Nové Mesto nad Váhom	Hviezdoslavova 19	924 01
Nové Zámky	Komárňanská 2	945 01
Pezinok	Meisslova 1/A	934 01

BRANCH	ADDRESS	POSTAL CODE
Poprad	Vajanského 71	949 01
Prešov	Hlavná 54	949 01
Prievidza	Bojnická cesta 15	940 02
Rožňava	Janka Kráľa 4	955 01
Senica	Námestie oslobodenia 9/21	960 01
Skalica	Potočná 20	965 01
Spišská Nová Ves	Letná 51	957 01
Topoľčany	Námestie M.R.Štefánika 21	018 41
Trebišov	M. R. Štefánika 52	031 01
Trenčín	Nám. sv. Anny 23	036 01
Trnava	Hlavná ulica 33	915 01
Vranov nad Topľou	Námestie Slobody 5	971 01
Zvolen	T.G. Masaryka 955/8	905 01
Žiar nad Hronom	Nám. Matice slovenskej 2820/24	911 01
Žilina	Na priekope 19	012 03

Operating branches

Branches opened 2016

Branches planned to be opened 2017 and 2018