annual report 2017

poštová banka

2017

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poštová banka

1. Address by the managing director

Dear Shareholders, Business Partners, and Colleagues,

Poštová banka has witnessed a year full of extensive changes. We started the year by presenting a new strategy for the repositioning of the bank, which was also reinforced by a profound change in the bank's visibility. Our aims were directed toward new target groups, attracting active clients, and thus maintaining our position among the top five banks in Slovakia in terms of the balance sheet amount. At the beginning of the year, we launched the rebranding of our branches throughout Slovakia. We gradually came up with new products and services. As early as February, we launched a mobile application and introduced the Štartovacia pôžička [Startup Loan] with a zero interest rate, thanks to which we achieved an all-time high in terms of loans sold in that month. We continued presenting new products. In April, we extended our portfolio to include a housing loan named Užitočné bývanie [Useful Housing], with the possibility of reducing the interest rate by way of saving. We strengthened our position on the mortgage market thanks to our communication strategy in the fall, with an emphasis on the lowest market interest rate, starting at 0.95%. In May, we launched the Peniaze s5 [Money Back] application, which allows clients to get their money back twice a month when they pay with a card at selected vendors. We also took a bold step with a new vision for our branches. In the fall, we opened a new family-oriented branch in Pezinok, which was a surprise for our clients as it included a children's playground and a healthy cafe. We will continue our special concepts for branches in other cities as well. We also pursued our new vision and started with a complete redesign of financial service counters at selected post offices. This extensive project will continue in 2018 as well, with the aim of improving comfort of a branches located at post offices, in order to get even closer to our clients.

The past year was also dedicated to the new PSD2 Directive being under preparation. Poštová banka responds to new trends and is aware of the growing importance of cooperation with fintech companies and, as a result, we do not lag behind in this area either. As expected, the strong wave of investments in the modernization of products, technology, and services, as well as the continued rebranding, were reflected in a decrease in profit, which, however, was better than originally planned.

We are also happy about the successes of our subsidiaries. The fund Náš prvý realitný o.p.f. [Our First Real Estate Fund] of PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY [First Pension Management Company of Poštová banka] celebrated 10 years of its existence. During this period, clients' funds appreciated by more than 60% in total. This year, Prvá penzijná also established a new fund called Office Real Estate Fund o.p.f, which specializes in selected investment projects both in Slovakia and abroad. Dôchodková správcovská spoločnosť Poštovej banky d.s.s., a. s. [Pension Management Company of Poštová banka] was also successful, with the number of its savers growing to 99,920.

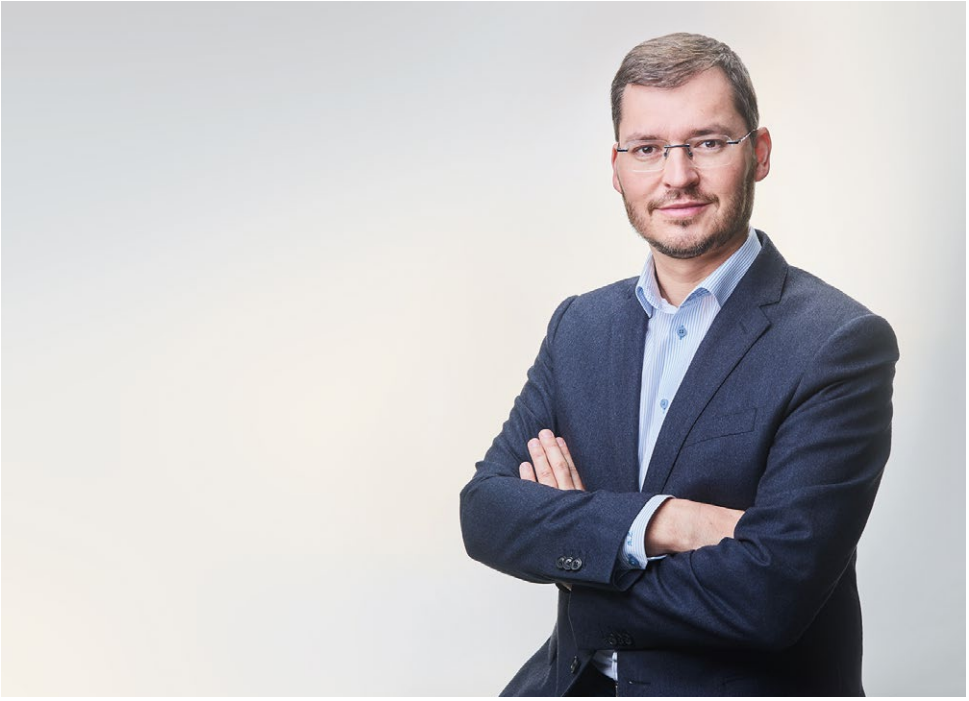
The year 2017 was extremely successful for Poštová poisťovňa [Postal Insurance Company], both in terms of sales and financial results. In terms of these key indicators,

Poštová poisťovňa reached an all-time high in 2017. Its profit grew by 23% year-on-year, by which Poštová poisťovňa achieved historically best financial result since 2008.

In 2017, new production rose by 12% year-on-year, which also means the best year in history of Poštová poisťovňa. These excellent results in new production were achieved by the distribution network of branches of Poštová banka and branches of Slovenská pošta [Slovak Post]. The success of the distribution networks can primarily be ascribed to their effective management and targeted support, as well as simple and useful insurance products and their simple administration.

This strategically important year was successful primarily thanks to employees of Poštová banka and its subsidiaries, without whom it would have been difficult to implement such extensive changes. We are really grateful to them for this. I would also like to thank our shareholders for their great support and, first and foremost, for their trust, as they believed in these big steps and changes and supported us in our endeavor. We have a year of full of courageous goals ahead of us, which I believe we will manage to attain and bring a strong breath of fresh air to the banking market again.

Ing. Andrej Zaťko



2. General information about the company

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

Scope of activities:

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

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

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

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

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

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

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

3. Company structure

Supervisory Board

Mario Hoffmann // Chairman
Ing. Vladimír Ohlídal, CSc. // Member
Ing. Jozef Tkáč // Vice-Chairman
Jozef Kiss // Member
Ing. Mgr. Martin Varga // Member until 18 December 2017

Board of Directors

Ing. Andrej Zaťko
Chairman of the Board of Directors and the CEO

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

Ing. Peter Hajko

Member of the Board of Directors
for retail banking and IT

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

RNDr. Zuzana Žemlová

Member of the Board of Directors
for risk management, finance
and back-office

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

Ing. Daniela Pápaiová

Member of the Board of Directors
for risk management, AML and finance

Member of the Board of Directors from 26 July 2012 to 20 June 2017
She 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 ING Nationale - Nederlanden poisťovňa, a.s., Aegon Životná poisťovňa, a.s. and Aegon, d.s.s., a.s., and 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 a member of the Board of Directors at Credium Slovakia, a.s. She joined Poštová banka, a.s. in 2011 as the Director of the Finance Division. From 26 July 2012, she took responsibility for risk management as a member of the Board of Directors of Poštová banka a.s. As of 20 June 2017, she resigned from the position of the member of the Board of Directors of Poštová banka a.s.

Shareholders structure as at 31 December 2017			Country	Identification number (IČO)	Number of shares	Share in %	Value per share	Share capital in €
J&T FINANCE GROUP SE	Pobřežní 297/14	186 00 Praha 8	Czech Republic	27592502	213 288	64.45	1 107	236,109,816
PBI, a. s.	Sokolovská 394/17, Karlín	186 00 Praha 8	Czech Republic	03633527	112 506	34.00	1 107	124,544,142
Slovenská pošta, a. s.	Partizánska cesta 9	975 99 Banská Bystrica	Slovak Republic	36631124	4 918	1.49	1 107	5,444,226
Ministerstvo dopravy a výstavby Slovenskej republiky	Námestie slobody 6	810 05 Bratislava	Slovak Republic	30416094	100	0.03	1 107	110,700
UNIQA Versicherungen AG	Untere Donaustraße 21	A-1029 Wien	Austria	63197 m	87	0.03	1 107	96,309
					330 899	100.00		366,305,193

Company name	Number of shares owned by Poštová banka	Share of Poštová banka in share capital (in %)	Share of Poštová banka in share capital (in €)
PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.	50 000	100	1,700,000.00
Poštová poisťovňa, a. s.	278 640	80	9,248,061.60
Dôchodková správcovská spoločnosť Poštovej banky, d. s. s., a. s.	36	100	11,949,810.48
PB Servis, a. s.	120	100	600,000.00
PB PARTNER, a. s.	46 000	100	4,600,000.00
PB Finančné služby, a. s.	3	100	99,582.00
SPPS, a. s.	24	40	140,000.00
PB IT, a. s. v likvidácii	10	100	50,000.00

poštová banka

pb finančné služby
ČLEN SKUPINY POŠTOVEJ BANKY

poštová poisťovňa
ČLEN SKUPINY POŠTOVEJ BANKY

pb partner

prvá penzijná
ČLEN SKUPINY POŠTOVEJ BANKY

pb servis

dôchodková správcovská
ČLEN SKUPINY POŠTOVEJ BANKY

nadácia poštovej banky

4. Major events

January

Rebranding of Poštová banka
Poštová banka underwent an intensive and far-reaching change. We started the year by presenting the Bank's new strategy, which was also reinforced by a profound change in the bank's visibility. We also began to work on redesigning all branches and financial service counters at post offices.

February

We launched a mobile application
This mobile application was created to ensure transparency and simplicity. It was downloaded by more than 15,450 clients by the end of the year, with 40% of them actively using the application.

Startup Loan with a zero interest rate
In February, we launched an extremely successful consumer loan, thanks to which we achieved an all-time high in terms of loans sold in that month.

March

Important awards for Prvá penzijná správcovská spoločnosť
Prvá penzijná správcovská spoločnosť received awards in the best-selling mutual fund category and in the category of funds with the best yield and risk.

Poštová poisťovňa launched the sale of Mozaika life insurance
The Mozaika [Mosaic] life insurance product offers clients accident insurance for one to three children within the same insurance contract.

April

We launched the Užitočné bývanie housing loan
This housing loan was an important step toward addressing a new target group. Clients were given an opportunity to obtain the lowest possible interest rate on the market starting at 0.725%.

We presented the Peniaze s5 program
Thanks to discounts agreed upon with selected partners, the Peniaze s5 [Money Back] program allows clients to get their money back for their card payments; the money is sent back to their bank accounts twice a month.

New branch was opened in Senec
We opened a new branch of Poštová banka in the pedestrian area in the downtown of Senec.

NÁŠ PRVÝ REALITNÝ o.p.f. celebrated 10 years
NÁŠ PRVÝ REALITNÝ o.p.f. fund of Prvá penzijná správcovská spoločnosť Poštovej banky celebrated 10 years of its existence. It received as many as 15 awards during this period.

May

Another branch in Bratislava
A new branch of Poštová banka was opened in the Twin City business center in Bratislava.

June

Summer loan campaign
Within the framework of the summer campaign to promote a consumer loan, we launched a competition where three clients could win as much as € 300 every day during a period of 30 days.

July

Overdraft facility with a 0% rate
Within the Užitočný účet [Useful Account], we brought about an overdraft facility of up to € 300 with a zero interest rate.

Poštová pôžička product was brought to all post offices
The Poštová pôžička [Postal Loan] product, created specifically for the purposes of post offices.

Mountain Insurance with payment cards
Clients who have the Travel Insurance product included in their payment cards automatically receive Mountain Insurance as well.

August

Opening a new branch
A new branch of Poštová banka was opened in Ružomberok.

September

A new housing loan campaign was launched in fall 2017
Thanks to this movie-themed campaign emphasizing the lowest interest rate on the market starting at 0.95%, we ranked among the three strongest banks considering the communication of our housing loan.

Opening of a new family-oriented branch in Pezinok
A family oriented-branch of Poštová banka based on a new concept with a kids' corner and a cafe was opened in Pezinok.

Branch renovation
The Poštová banka branch in Spišská Nová Ves was completely renovated.

October

Prvá penzijná introduced the new Office Real Estate Fund o.p.f
This Fund is focused on property investment projects both in Slovakia and abroad.

November

Good Loan with the possibility of a zero interest rate
In the winter, we introduced Dobrá pôžička [Good Loan] product, where our clients had an opportunity to win a zero interest rate every day.

December

Two new branches opened
We opened two new branches of Poštová banka, one in the Eperia mall in Prešov and the other one in the Saratov mall in Bratislava.

Fourth place in the TOP Trend poisťovňa roka [TOP Trend Insurance Company of the Year] competition
Poštová poisťovňa ranked **fourth in the TOP Trend poisťovňa roka [TOP Trend Insurance Company of the Year] competition**.

Outlook for 2018

In 2018, we will continue to modernize Poštová banka and also focus on a younger generation of clients. In this context, we are preparing projects in the area of Customer Experience. During the course of the year, we will launch a new brand "365" and the related "365.bank". In the retail area, we will continue to provide our housing loan named Užitočné bývanie. Additionally, focusing on the Micros segment and related activities will be one of the pillars of the bank's strategy for 2018.

5. Corporate social responsibility

Poštová banka perceives Corporate Social Responsibility and support for such activities as an important part of its overall philosophy. Within the framework of Corporate Social Responsibility, we supported several organizations and events in 2017. Last year, we assisted in our endeavor by our Foundation, which announced several interesting grants and supported meaningful projects in various areas.

In 2017, Poštová banka's CSR activities were primarily aimed at supporting and preserving traditional folk culture and art. This was the second year that the bank has actively supported the Lúčnica folk ensemble. Thanks to our support, the ensemble gave performances in the High Tatra Mountains for one week, which culminated in a live show directly under the ski jumps in Štrba.

In addition to this cooperation, we also supported several folklore festivals, such as the festival in Východná, Jánošík's Days in Terchová, the folklore festival Poľana, the Horehronie Days of Singing and Dancing in Heľpa, and the Folklore Festival in Myjava. Last but not least, Poštová banka was the general partner of the unique TV project **Zem spieva [The Earth Sings]**.

As a bank supporting young families, we also decided to support a project of global dimensions last year - the exhibition of children and youth book illustrations, **Bienále ilustrácií 2017 [Biennial of Illustrations 2017]**, with international participation. Visitors to the exhibition organized after the Biennial had an opportunity to see a display of children book illustrations from all over the world.

In 2017, we extended our scope of activities to include the area of ecology, namely through our grant program called **Spolu pre vodu [Together for Water]**. This grant was aimed at supporting projects focused on revitalization of mountain wells and fountains in towns and villages, cleaning of springs, and revitalization of the river Váh. Villages, towns, individuals, and organizations were encouraged to apply for financial contributions to make water resources more accessible, cleaner and more beautiful.

Last year, we also did not forget about our long-term partnerships with the Naive Theater of Radošiná and the Association of Old-Age Pensioners in Slovakia. Support for the iconic Naive Theater of Radošiná, which brought theater to several regions of Slovakia with nontraditional open-air performances in village amphitheaters last year, has been an inseparable part of Poštová banka's CSR activities since 2013.

Poštová banka is a long-term partner of the Association of Old-Age 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.

The year 2017 was important for the Nadácia Poštovej Banky [Foundation of Poštová banka] in several respects. The Foundation not only extended its activities serving the public good to supporting culture and art, but also celebrated 10 years of its

existence, during which it supported a large number of various projects and helped people in need. For our Foundation, the past year was also dedicated to grant programs, in which individuals and organizations, as well as employees of the Poštová banka Group, could participate.

A novelty in our scope of activities was the first year of a grant program called **Nápad pre folklór [Idea for Folklore]**, aimed at supporting traditional Slovak folk culture and folklore. We supported a total of 33 ideas and distributed a total of € 40 thousand among them. The grant project included a public vote for the TOP project, which was won by the idea presented by the Šiňava folk ensemble and the launch of their To sme my [This Is Us] program marking the 20th anniversary of the establishment of the ensemble.

In the fall, we launched the third round of our successful grant program called **Nápad pre 3 generácie [Idea for 3 Generations]** and again, we managed to bring together three generations - youth, adults, and seniors - through interesting ideas and projects. Our support went to 21 excellent community projects, such as the construction of a playing field in Smrečany, cycling trips for seniors in Bratislava, creative workshops for families in need in Košice, and a relaxation zone in the municipality of Necpaly. We provided a total of € 30 thousand to organizations and individuals for the implementation of their ideas.

To celebrate its 10th anniversary, the Foundation launched a special grant program both for employees and the public called **10 dobrých skutkov [10 Good Deeds]**, which was open to organizations and individuals that found themselves in distress. We distributed more than € 13 thousand in total and supported 17 applications in the area of health care and social welfare aid.

In addition to grant programs, we also provided one-off financial grants to organizations whose activities we found appealing and interesting. These include, for example, "Pošli ďalej" civic association, Únia nevidiacich a slabozrakých Slovenska [Union of the Blind and Visually Impaired in Slovakia], and the Linka Detskej istoty [Child Helpline]. The Foundation also provided nonfinancial aid - by organizing collections of clothes for socially disadvantaged families, as well as Christmas and Easter markets which were attended by nonprofit organizations and civic associations.

Education is another important area where the Foundation is active. This year, it was the seventh time that we carried out our successful project **Škola v múzeu [School in the Museum]**. in cooperation with the Slovak National Museum. Financial support was primarily intended for carrying out interactive educational programs for children and youth in museums in Slovakia. In 2017, we supported educational workshops, for example, in the museums in Červený Kameň and Modrý Kameň, the Spiš Museum in Levoča, the Museum of Jewish Culture, and the Historical Museum of the Slovak National Museum.

In the area of education, we further supported our **our interactive exhibition** called **Múdro sporiť a rozumne míňať [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. At the end of last year, the exhibition was transferred from Bratislava, where it had been visited by more than 19,000 people, to the East-Slovakian Museum in Košice. It will be open to the public in Košice until April 2018.

The year 2017 was the first time that we launched, with the help of employees of the Poštová banka Group, an excellent activity called Do školy s Nadáciou Poštovej banky [To School with the Poštová banka Foundation]. This activity was aimed at providing children from socially disadvantaged families and children's homes with all school

supplies necessary for the new school year. We helped more than 50 children and their families in this way. Our Christmas project, which the Foundation organized for the third time, was organized in a similar spirit. The "Tree of Fulfilled Wishes" project is aimed at giving children from socially disadvantaged families their dream Christmas presents and providing families with funds to prepare a beautiful Christmas for their loved ones. In 2017, we supported more than 80 children and their families in this way. We were able to carry out both projects primarily thanks to support and help from employees of the Poštová banka Group.

For the Foundation, the past year was full of meaningful projects and activities, with a view to helping where necessary. Thanks to our supporters, well-wishers 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 2017, the number of employees was 1,084. Poštová banka is an organization with an average employee age of 37, employing all age categories with various needs and expectations. We are aware of and proceed from this fact in our personnel policy.

Our main achievement in the area of personnel policy in 2017 was the second place in the Naj zamestnávateľ [Best Employer] survey. Our activities in many different areas, prepared and carried out throughout the year, are behind this success. In addition to reputation and campaign, 50% of the evaluation consists of stringent criteria for working with candidates and the brand, relationships at work, working conditions, benefits, etc. Therefore, this survey reflects realistic opinions of candidates, employees, and experts on individual companies.

Main activities supporting this success included the implementation of the Employee branding concept, within which we defined a potential employee. Based on an employee's life cycle and its milestones, we carried out employee management activities considering the values, strategy, and vision of the bank. We focused on working with candidates via Personalized Management, the speed of communication with candidates, and, last but not least, support for the internal JOBOTE referral system, which has become a tool widely used by employees searching for peers.

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

We began to use the new communication concept not only in selections, but also in all HR projects of the bank.

The year 2017 was the year of transition to a modern and performance-oriented bank. In the HR area, we supported this change by updating the employee performance management system at the Bank's headquarters. At the same time, we decided to replace the application to administer performance management. The new application is simpler and more user-friendly.

As of 1 January 2017, we changed the system of remuneration of branch network employees at the position of branch director by transferring a part of the variable component of the salary to the basic salary. As of 1 April 2017, we adjusted the basic salaries of employees by 1% in accordance with the Collective Agreement concluded for the period from 1 January 2017 to 31 December 2019.

Transition to a bank with modern management requires a change in culture and thinking. The HR Department supported the ability of managers to work with change by way of a development project focused on Change Management.

We are aware that the values of Poštová banka reflect the values of us all. The Ambassadors of Values project is there to make sure that values do not remain just words on paper, but are instead brought into real life. Its main objective is to support and implement these values into everyday life of the Bank. Each of the five ambassadors elected by employees personifies one of these values and coordinates related ac-

tivities. An ambassador is a person who believes in the respective value and understands its role within our functioning, and motivates other colleagues to really live their values, promotes the awareness of the value that he or she represents, as well as proposes and participates in carrying out projects and activities.

The ambassador responsible for the value „accessibility" makes sure that information and activities are accessible to all. We give training a new dimension through the value „professionalism", namely by means of the popular out-of-the-box training. We are helping nature and seeking improvements and solutions to our everyday working lives - all this under the heading of the value „simplicity." We have brought the fair play principle into the life of the bank through team sport activities as part of the value „fairness." We jog together, go skiing, and root for our colleagues. This two-year program includes more than 20 different projects and activities aimed at improving access to information, commitment, and satisfaction of our employees.

Within the value „humanity," we link CSR projects to corporate culture, foster traditions and folklore, and have a good time together at a Christmas party or at a summer event with our families. We bring our colleagues together via voluntary activities. At Poštová banka, we involve our employees in our Foundation activities and, within our support for voluntary work, we link them to organizations throughout Slovakia. We actively motivate our employees to do voluntary work and enable them to take part in various activities. We cooperate with Domov sociálnych služieb pre deti [Social Services Home for Children] and Rehabilitačné stredisko ROSA [ROSA Physiotherapy Treatment Center] on a long-term basis. Our volunteers also provide help in teams, within the framework of corporate team building events. In cooperation with the Tatranský okrášľovací spolok [High Tatras Maintenance Association], we have cleaned creeks in Tatranská Lomnica. Our collections have become traditionally popular, such as the collection of clothes and school supplies and the Christmas collection of toys called Stromček splnených prianí pre deti zo znevýhodnených rodín a z azylových centier [Tree of Fulfilled Wishes for children from socially disadvantaged families and asylum centers].

We do not only think ecologically, we also take an action

Within the framework of environmental behavior, we introduced several novelties at our workplaces in 2017. We set up automatic duplex printing on all of our multifunction devices. Regular waste baskets in kitchenettes have been replaced by waste separation baskets. Within the provision of potable water to our employees, we purchased glass water jugs to replace plastic bottles. Christmas presents for all employees of the Poštová banka Group were with an environmental motif as well. We are aware that we can help nature by doing small deeds.

In connection with the bank's strategy to change the attitude of Slovaks toward money, we also worked to foster the financial literacy of various target groups outside the bank. In cooperation with the Poštová banka Foundation and the Old Town Library, we provided content and personnel support for Ostrov pokladov [Treasure Island project], under which we organized discussions about financial literacy for pupils and students of various age categories.

Our cooperation with selected elementary and high schools all over Slovakia was also a success. The most comprehensive project was the implementation of the FINGRA Club project carried out in cooperation with the Faculty of Commerce of the University of Economics in Bratislava. The project included a series of 10 interactive lectures given to participants by bank employees on how to manage personal finances to make them capable of preparing attractive training for vocational school students. The project now continues with a view of having this content accredited, so that in can be actively implemented in vocational schools in Slovakia.

We are closely cooperating with several universities and high schools on a long-term basis. Last year, we continued to carry out Simulátor pracovných pohovorov [Job Interview Simulator] project.

We also continued the seventh year of the very successful Trainee Program for fifth-year university students. For us, millennials are the source of unconventional views of the future of the banking sector, which is why we hired successful candidates to work for the bank and its subsidiaries after the completion of the program.

We also supported our internal Talent pool. The annual Talent program for branches was a success, with 17 selected employees completing the program in 2017. Today, 10 of them are in managerial positions as branch directors.

The bank supports the long-term development of its employees. The same was true in 2017. Our employees spent almost 51,000 „man-hours" in total participating in training activities (provided by external lecturers, as well as by many internal instructors).

We supported the bank's product strategy and the addition of the Housing Loan to the product portfolio by an extensive internal training activity - retraining of branch employees to sell the product, which resulted in a high success rate of its sale.

In view of the need to stabilize employees in the branch network in 2017, we simplified the employee adaptation process and made it more attractive. This resulted in positive changes in terms of staff turnover.

We understood that offering a flexible benefit package was another aspect making us an attractive employer. Therefore, the year 2017 was dedicated creating a new concept of benefits. The aim of the project was to categorize benefits, allow flexibility in their selection, and make them visible both externally and internally. In 2017, employees received contributions totaling **€ 228,450**. Employee benefits were used via the Cafeteria online system of benefits, where employees placed orders totaling € 210,413.

Out of the total amount of benefits, 49% was utilized in the category „Health." Here, employees can find above-standard medical examinations, various forms of preventative health care, health exercises, and physiotherapy treatment. This category thus maintained its primacy in the utilization of benefits.

As of 1 December 2017, we launched new modules within Cafeteria as a new communication tool. We successfully introduced novelties such as Ideabox, Bazaar, Spolujazda [Fellow Traveler], and the Activities module.

Poštová banka has drawn up the Compliance Code representing a set of ethical standards, principles, and binding rules for Poštová banka and its employees. The responsibility of Poštová banka and its employees vis-à-vis clients and toward each other forms the basis for the consistent observance of the adopted rules and standards of the Compliance Code. Poštová banka applies zero tolerance to any breach of the Code. The Compliance Code also provides practical guidance on how to apply legislative provisions in day-to-day dealings with information that may change the behavior of entities in the market and how to prevent or address conflicts of interest concerning the bank, its employees, management, and clients. In the Compliance Code, Poštová banka declares its anticorruption and antidiscrimination approach and its focus on the strict observance of fundamental human rights and freedoms and, at the same time, defines the ways and methods of reporting possible suspicions of corruption, discrimination, or other antisocial activities.

7. Description of the macroeconomic and competitive environment

The year 2017 brought about a favorable economic development to Slovakia. The annual GDP growth reached a level similar to the one of 2016, and the Slovak economy achieved positive results. The situation on the labor market developed in line with the stronger economic growth; the unemployment rate registered in Slovakia declined to below 6%, while both nominal and real wages grew. Consumer prices in Slovak shops were growing as well. In contrast to previous years, Slovakia swung from deflation back to inflation.

In 2017, the annual growth in Slovakia's GDP reached 3.4%, which represented a moderate acceleration compared to 2016. The Slovak economy was driven by higher household consumption throughout the past year. In the last quarter of 2017, the developments were also driven by a strong revival in exports, which lagged behind in previous quarters. Investment activities also developed positively during the year and contributed to Slovakia's GDP growth. The end of the year saw a mild decrease in investing owing to lower investments in infrastructure. Investments in private companies continued to grow.

We witnessed an increase in the prices of goods and services in Slovak shops throughout the past year. Consumer prices rose year-on-year by 1.3% on average according to the national consumer price index (CPI) and by 1.4% on average according to the harmonized consumer price index (HICP) in 2017. According to the national CPI index, the largest increase in prices, by 4.0%, was recognized in foodstuffs and nonalcoholic beverages. The increase in the prices of foodstuffs was primarily caused by the development of prices of agricultural commodities on world markets, the stronger purchasing power of the population, and the lack of certain commodities on the market (for example, butter, dairy products, and eggs). Inflation was also driven upward by higher prices of transport owing to the rise in oil prices. Over the past year, the only thing that became cheaper on year-on-year average was housing and utilities, in addition to furniture and household equipment. Foodstuffs and housing represent the largest cost items in family budgets of Slovak households.

The lines of the unemployed at labor offices became shorter during 2017. The favorable economic development was reflected in creation of new jobs and a decline in unemployment. The registered unemployment rate decreased from 8.64% in January to 5.94% in December, which translated at the end of the year into fewer than 162,000 unemployed ready to immediately take up a job. However, the total number of unemployed was more than 195,000.

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 39% than had been planned when the budget was drawn up. The state budget closed the year 2017 with a deficit of € 1.22 billion. On the other hand, the state budget deficit increased by as much as almost one-fourth on the year-on-year basis. State budget expenditures slightly decreased, by 0.1 percent, but income declined more sharply, by 1.8%.

Not only Slovakia, but also the entire Eurozone, saw growing prices of goods and services in shops during 2017. However, the European Central Bank (ECB) kept its prime interest rate unchanged at 0%. In connection with the favorable economic development and growing inflation, effective from April 2017, ECB decided to reduce the amount of monthly purchases of assets to € 60 billion from the previous level of € 80 billion. At its October session , the ECB announced a further reduction in the amount of purchased assets to € 30 billion per month, effective from the beginning of 2018. The favorable economic development, GDP growth in the euro currency bloc, and a moderate increase in inflation pressure led the central bank to gradually tighten the quantitative easing program. The gap between the ECB monetary policy and that of the US Federal Reserve System began to widen even more in 2017, because the US central bank increased its interest rate to a level of 1.25-1.50% in December 2017, while the ECB prime interest rate remained zero.

In the course of 2017, the euro gradually strengthened against the dollar, fluctuating within a broader band of approximately EUR 1.04/USD to EUR 1.20/USD. Our currency dropped to its lowest levels at the beginning of the year, when it also reached its last year's minimum against the dollar in the amount of EUR 1.0405/USD. It gradually climbed up to around EUR 1.20/USD (last year's maximum was EUR 1.2036/USD from September 2017). The gradual appreciation of the European currency against its US counterpart during 2017 resulted from the favorable economic development of the Eurozone, as well as from the market expectations that the ECB would have to gradually tighten its loose monetary policy. In line with the investors' expectations, the ECB began to gradually reduce the monthly amounts of purchased assets during last year, having to „cool" the market expectations that the interest rate would soon be increased. Economic growth in the Eurozone in 2017, which was the fastest over the past decade, put the wind into the sails of the euro as well. In addition, several political elections were held last year, with the presidential election in France and the parliamentary election in Germany being among the most important. Their results calmed down the markets, as they put a brake on the expansion of extremist political parties in Europe and supported the Eurozone's unity.

At the beginning of 2017, the EUR/CZK currency pair was trading at above 27 CZK per EUR. This was mainly because of the commitment of the Czech National Bank (ČNB) to intervene against the Czech crown to keep it above the aforementioned limit. However, this official commitment was terminated at the end of March 2017, even though ČNB continued its intervention program. As economic figures indicated a favorable development in the Czech Republic (GDP, as well as wages and inflation, grew faster than ČNB had estimated in its last forecast), it could be expected that these interventions would soon end. On 6 April 2017, ČNB resumed its standard monetary policy based on interest rates as the main instruments. Following this announcement, the Czech crown began to fluctuate in both directions, but it soon stabilized and began to appreciate. At the end of May, the Czech crown was traded at below EUR/CZK 26.50 and, at the end of September, it improved its levels against the euro, trading at below EUR/CZK 26.00. It maintained these levels until the end of last year. In the past year, the Czech National Bank also began tightening its monetary policy and increasing the prime interest rate. At its August session, it raised the prime interest rate from 0.05% to 0.25%. It continued increasing the rate at its November session , fixing it at 0.50%. In 2018, ČNB further increased the prime interest rate (at its February session) by 25 basis points to 0.75%.

As of 31 December 2017, 12 banks with registered offices in the territory of the Slovak Republic were operating in the Slovak banking sector (including two banks without foreign capital participation and 10 banks with foreign capital participation), 14 branches of foreign banks, and one central bank. This means that at the end of 2017, the total number of banks decreased compared to 2016 as a result of a reduction in the number of branches of foreign banks by one and the number of banks with foreign capital participation by one as well. During the same year, the number of branches and other organizational units in the banking sector dropped by 60 to 1,233. By the end of 2017, a total of 19,972 employees were working in the Slovak banking sector, which was 4.3% less than at the end of 2016. According to preliminary results, in 2017 total assets in the banking sector amounted to € 75.8 billion. Deposits from citizens presented at the end of 2017 amounted to € 33.1 billion, growing by 4.5% on a year-on-year basis. Compared to 2016, loans to citizens increased by 12.1%, to reach € 31.6 billion,. According to preliminary data, the banking sector generated a net profit of almost € 612 million.

8. Report on business activities and financial position

In 2017, the Bank generated a net profit after tax in the amount of € 47.9 million, which represents a decrease by 2.8% compared to 2016. The drop in profit was primarily caused by lower net interest income resulting from the continued decline in market interest rates and the bank's investments in development.

As of 31 December 2017, the Bank's balance sheet amount reached € 4,311 million, growing by 1.3% compared to the previous year.

A year-on-year increase was also recorded in the capital adequacy ratio Tier I, as a percentage of risk-weighted assets, which grew from 17.37% to 17.68%.

Assets

Loans and receivables increased by 3.6% compared to 2016 and as of 31 December 2017 reached a value of € 2,346 million net of the created value adjustments. Loans and receivables formed the largest portion of assets, accounting for 54.4% of the Bank's total assets.

Growth in 2017 was primarily driven by retail loans. Consumer loans provided (principal, without value adjustments) amounted to € 849 million, growing by € 134 million. The Bank resumed the provision of housing loans during 2017.

As of 31 December 2017, the Bank had in its portfolio **financial assets available for sale** in the amount of € 783 million and **financial assets held to maturity** in the amount of € 281 million, which, in aggregate, accounted for 24.7% of total bank assets. From the total volume of financial assets available for sale and held to maturity, government bonds represent € 699 million, other bonds € 184 million and ownership interests € 182 million.

As of 31 December 2017, **cash and deposits at the central banks** amounted to € 705 million, representing 16.3% of the Bank's total assets, including balances at central banks in the amount of € 21 million and € 684 million deposited by the Bank with the Czech National Bank in the form of short-term deposits and reverse repo transactions.

Cash in hand amounted to € 25 million as of 31 December 2017.

As of 31 December 2017, the carrying value of **tangible and intangible assets** of the bank was € 34 million, representing 0.8% of total assets.

Liabilities and equity

Primary resources (customer accounts) saw a moderate year-on-year growth of 0.2%, reaching a value of € 3,604 million as of 31 December 2017, which represented 83.6% of the total balance sheet amount. Balances of term deposits continued to form the largest part of primary resources, amounting to € 1,552 million (principal). However, the amount of term deposits decreased over the course of the year owing to declining interest rates, with clients transferring some of their savings to current accounts.

Secondary resources (financial liabilities to financial institutions) amounted to € 6 million as of 31 December 2017.

Equity grew by € 36 million compared to the previous year, amounting to € 643 million as of 31 December 2017.

Selected Indicators

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

Indicator	31 Dec 2017	31 Dec 2016
Increase in assets	+1.3%	+2.0%
Increase in loans and receivables (net)	+3.6%	+0.7%
Loans and receivables (net)/Assets	54.4%	53.2%
Primary resources/Assets	83.6%	84.5%
Loans and receivables (net)/Primary resources	65.1%	63.0%
ROA	1.1%	1.2%
ROE	7.5%	8.1%

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

2017

poštová banka

Poštová banka, a. s.

Separate financial statements

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

(English Translation)

Year ended 31 December 2017

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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 2017, 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 2017, 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 audit 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.

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Impairment of loans and advances to customers

The carrying amount of loans and advances as at 31 December 2017: EUR 2,181,127 thousand; impairment loss recognised in 2017: EUR 38,851 thousand; total impairment loss as at 31 December 2017: EUR 169,362 thousand.

Refer to Note 3 (l) (Significant accounting policies) and Note 10 (Loans and advances to customers and Impairment allowances).

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 management 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 (such as, primarily real estate, and debt and equity securities). 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 homogeneous loans and advances. The Bank routinely makes adjustments to the key model parameters, such as the probability of default and loss given default, 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 the individual impairment assessment: • 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 2017; 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 valuations using external valuation experts engaged by us.

For the collective impairment assessment:

- 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 any changes made to the model parameters in 2017, 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 benchmarking them against publicly available industry data.

KPMG

Measurement of securities held at fair value

The carrying amount of securities held at fair value as at 31 December 2017: EUR 783,282 thousand; change in fair value recognized in profit or loss for the year ended 31 December 2017: EUR 925 thousand; change in fair value recognized in other comprehensive income for the year ended 31 December 2017: EUR 1,258 thousand.

Refer to Note 3 (j) and 3 (o) (Significant accounting policies), Note 7 (a) (Financial assets held for trading - Securities) and Note 8 (Financial assets available for sale).

Key audit matter	*Our response*
Securities held at fair value include primarily debt and equity securities within the available-for-sale financial assets portfolio. For the majority of the securities held, their respective fair values are based on quoted prices of identical instruments, while valuation techniques using market observable and unobservable inputs were applied for the remaining bonds and shares, and for investments in funds. There is as well a risk that the underlying markets for the instruments are not sufficiently active or that the transaction prices do not represent the fair value of the financial instruments at the measurement date. Due to the magnitude of the amounts involved, as well as the complexity involved and judgment required in measuring certain of these instruments, their valuation was a key area of focus during our audit.	Our audit procedures included, among others: • Assessing the design, implementation and operating effectiveness of selected key controls over the identification and measurement of financial instruments and management's oversight over the valuation process; • Independently assessing the financial instruments' fair value hierarchy levels, considering underlying market activity, including volume traded and number of executable quotes, and assessment of bid-ask spread of those quotes, and comparing these levels to the hierarchy levels assigned by the Bank; • 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, considering the requirements of the relevant financial reporting standards, and also, for on a sample basis, performing an independent valuation, assisted by our own valuation specialists; and • Evaluating the overall reasonable-ness of the Bank's valuations by

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	examining gains and losses on disposals and other events and transactions which could provide evidence about the appropriateness of the valuations.

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 our audit 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 audit procedures included, among others: • With the assistance of our internal IT specialists, updating our understanding of the Bank's IT environment and the framework of governance over the IT organisation; • Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting, including program development and changes, access to programs and data and IT operations; • Where relevant, assessing whether compensating controls were effective in mitigating any 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 International Financial Reporting Standards as adopted by the European Union, 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.

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

- the information given in the Annual Report for the year 2017 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 Bank and its environment that we have acquired during the course of the audit of the financial statements.

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

Appointment and approval as auditor

We have been appointed as statutory auditor by the statutory body of the Bank on 2 October 2017 on the basis of an approval by the General Meeting of the Bank on 20 June 2017. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is 15 years.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

14 March 2018
Bratislava, Slovak Republic

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

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

Separate statement of financial position
As at 31 December 2017

	Notes	31.12.2017 € '000	31.12.2016 € '000
Assets			
Cash and balances at the central banks	6	760,008	659,214
Financial assets held for trading	7	1,183	712
Financial assets available for sale	8	783,272	829,460
Financial assets held to maturity	9	281,410	349,663
Loans and advances	10	2,346,031	2,265,523
Loans and advances to financial institutions		55,368	47,634
Loans and advances to customers		2,181,127	2,015,531
Debt securities		109,536	202,358
Hedging derivatives	11	-	-
Investments in subsidiaries, jointly controlled entities and associates	12	41,812	41,539
Tangible assets	13	9,741	10,047
Intangible assets	14	23,886	17,653
Deferred tax asset	15	11,693	13,876
Tax receivable		3,104	202
Other assets	16	48,657	68,127
Total assets		**4,310,797**	**4,256,016**

	Notes	31.12.2017 € '000	31.12.2016 € '000
Liabilities			
Financial liabilities held for trading	7	5,846	277
Financial liabilities at amortized cost	17	3,617,352	3,608,272
Financial liabilities to financial institutions		5,573	4,242
Customer accounts		3,603,766	3,596,017
Subordinated debt		8,013	8,013
Hedging derivatives	11	3,738	5,063
Tax liabilities		752	3,862
Provisions for off balance sheet liabilities	18	1,186	1,455
Other liabilities	19	39,189	29,995
Total liabilities		**3,668,063**	**3,648,924**
Equity	20	642,734	607,092
Total equity		**642,734**	**607,092**
Total liabilities and equity		**4,310,797**	**4,256,016**

These separate financial statements, which include the notes on pages 55 - 132, were approved by the Board of Directors on 14 March 2018.

Chairman of the Board of Directors
Andrej Zaťko

Member of the Board of Directors
Zuzana Žemlová

Separate statement of profit or loss and other comprehensive income Year ended 31 December 2017

Statement of profit or loss	Notes	2017 € '000	2016 € '000
Net interest income	22	159,792	163,694
Net fee and commission income	23	22,080	21,212
Dividend income	24	10,505	12,072
Net trading income	25	13,150	7,124
Net other operating expenses	26	(7,165)	(7,822)
Administrative expenses	27	(81,283)	(67,729)
Depreciation and amortization	28	(7,818)	(6,803)
Operating profit before impairment losses and provisions		**109,261**	**121,748**
Impairment loss for financial assets not valued at fair value through profit or loss	8, 10	(43,729)	(50,551)
Impairment loss for investments in subsidiaries, jointly controlled entity and associate	12	(2,553)	-
Impairment loss for non-financial assets	13, 16	839	(2,680)
Release of provisions	18	269	505
Profit before tax		**64,087**	**69,022**
Income tax	30	(16,200)	(19,768)
Profit after tax		**47,887**	**49,254**

Other comprehensive income	2017 € '000	2016 € '000
Profit after tax	**47,887**	**49,254**
Items that can be reclassified to profit or loss		
Revaluation of financial assets available for sale	1,258	(2,958)
Revaluation of hedging derivatives	1,134	(3,733)
Deferred tax related to items that can be reclassified	(501)	1,608
Total	**1,891**	**(5,083)**
Translation difference from foreign operations	640	(19)
Other comprehensive income after tax	**2,531**	**(5,102)**
Total comprehensive income for the year	**50,418**	**44,152**
Net profit for the accounting period (in € '000)	47,887	49,254
Number of issued shares	330,899	330,899
Earnings per share (in EUR)	**145**	**149**

The notes on pages 55 - 132 are an integral part of these separate financial statements.

Separate statement of cash flows
Year ended 31 December 2017

	2017 € '000	2016 € '000
Profit before tax	**64,087**	**69,022**
Adjustments:		
Depreciation and amortization	7,818	6,803
Impairment losses on financial assets not valued at fair value through profit and loss	38,851	50,551
Impairment losses on investments in subsidiaries, jointly controlled entities and associates	2,553	-
Impairment of financial assets available for sale	4,878	-
Impairment losses on non-financial assets	(839)	2,680
Release of provisions	(269)	(505)
Loss/(profit) from sale of tangible and intangible assets	383	246
Net interest income	(159,792)	(163,694)
Dividend income	(10,505)	(12,072)
Cash flows used in operating activities before changes in working capital, received and paid interest and income tax paid	**(52,835)**	**(46,969)**

	2017 € '000	2016 € '000
Cash flows from operating activities		
(Increase)/decrease in operating assets:		
Change in financial assets held for trading	(471)	1,394
Change in balances at the central banks	338,182	(124,814)
Change in financial assets available for sale	28,956	8,987
Change in loans and advances to financial institutions	(2,562)	(5,258)
Change in loans and advances to customers	(204,376)	(140,535)
Change in debt securities	93,385	22,440
Change in hedging derivatives	-	1,305
Change in other assets	22,412	(21,472)
Increase/(decrease) in operating liabilities:		
Change in financial liabilities held for trading	5,569	193
Change in liabilities to financial institutions	1,330	315
Change in liabilities to customers	11,645	63,997
Change in hedging liabilities	(336)	(1,304)
Change in other liabilities	9,190	(1,229)
Income tax paid	(20,529)	(11,220)
Cash flows from operating activities from interest:		
Interest received	175,486	197,803
Interest paid	(16,753)	(19,978)
Net cash flows from/(used in) operating activities	**388,293**	**(76,345)**

The notes on pages 55 - 132 are an integral part of these separate financial statements.

	2017 € '000	2016 € '000
Cash flows from investing activities		
Purchase of tangible and intangible assets	(14,633)	(8,698)
Proceeds from sale of tangible and intangible assets	927	99
Purchase of financial assets held to maturity	-	(6,000)
Proceeds from financial assets held to maturity	64,823	114,359
Interest received from financial assets held to maturity	14,164	16,388
Dividends received from subsidiaries, jointly controlled entities and associates	8,497	11,938
Purchase of subsidiary, jointly controlled entities and associates	(2,826)	(2,133)
Proceeds from sale of subsidiary, jointly controlled entities and associates	-	3,345
Net cash flows from investing activities	**70,952**	**129,298**
Cash flows from financing activities		
Dividends paid to shareholders	(14,776)	(37,995)
Interest paid for subordinated debt	(321)	(427)
Net cash flows from/(used in) financing activities	**(15,097)**	**(38,422)**
Net (decrease)/increase in cash and cash equivalents	**444,148**	**14,531**
Cash and cash equivalents at the beginning of the year (Note 6)	**342,456**	**327,925**
Cash and cash equivalents at the end of the year (Note 6)	**786,604**	**342,456**

The notes on pages 55 - 132 are an integral part of these separate financial statements.

Separate statement of changes in equity
Year ended 31 December 2017

	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 2017	366,305	738	40,234	10,727	189,701	(613)	607,092
Total comprehensive income							
Profit after tax	-	-	-	-	47,887	-	47,887
Other comprehensive income after tax							
Net change in fair value of financial assets available for sale and hedging derivatives, after tax	-	-	-	1,891	-	-	1,891
Translation difference from foreign operations	-	-	-	-	-	640	640
Total comprehensive income	-	-	-	1,891	47,887	640	50,418
Transaction with owners, recorded directly in equity							
Transfer to legal reserve fund	-	-	4,925	-	(4,925)	-	-
Dividends to shareholders	-	-	-	-	(14,776)	-	(14,776)
Total transactions with owners	-	-	4,925	-	(19,701)	-	(14,776)
At 31 December 2017	366,305	738	45,159	12,618	217,887	27	642,734

The notes on pages 55 - 132 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 change in fair value 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
At 31 December 2016	366,305	738	40,234	10,727	189,701	(613)	607,092

The notes on pages 55 - 132 are an integral part of these separate financial statements.

1. General information

Poštová banka, a. s. ('the Bank') was incorporated in the Commercial Register on 31 December 1992 and commenced activities on 1 January 1993. The registered office of the Bank is Dvořákovo nábrežie 4, 811 02 Bratislava.

The Bank's identification ('IČO'), 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 in the Slovak republic through its branch network located and under an agreement with Slovenská pošta. The Bank sells its products and services through post offices and selected bank services also through offices of Pošta-Partner, located throughout the country.

The Bank extended its activities to the Czech Republic in 2009 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.

Poštová banka, a.s., odštepný závod 365.bank ('Branch of the enterprise') was registered in the Commercial Register of the Slovak Republic on 6 June 2017.

At 31 December 2017, the Bank had the following subsidiaries, jointly controlled entities and associates (or joint ventures):

Subsidiaries	Activity	Share in %
PRVÁ PENZIJNÁ 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. v likvidácii	IT services	100
365 world o. p. f.	Investment services	100

Jointly controlled entities	Activity	Share in %
SPPS, a. s.	Payment services	40

Associates	Activity	Share in %
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	Art and sales	37.13

All entities are resident in the Slovak Republic.

The Bank acts as founder of the following non-profit oriented organization as at 31 December 2017:

	Activity	Share in %
NADÁCIA POŠTOVEJ BANKY	Charitable foundation	100 %

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

Shareholders of the Bank as at 31 December 2017

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. (dcérska spoločnosť J&T FINANCE GROUP SE)	Sokolovská 394/17, 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 2017.

All shares are ordinary held in a dematerialized form and are registered.

The nominal value of a share is Eur 1,107 (in 2016: Eur 1,107).

Members of the Board of Directors

Andrej Zaťko	Chairman
Peter Hajko	Board member
Zuzana Žemlová	Board member (from 20 June 2017)
Daniela Pápaiová	Board member (till 20 June 2017)

Members of the Supervisory Board

Mario Hoffmann	Chairman
Vladimír Ohlídal	Board member
Jozef Tkáč	Board member
Jozef Kiss	Board member
Martin Varga	Board member (till 18 December 2017)

The separate financial statements of the Bank for the year ended 31 December 2016 were approved by the Board of Directors on 20 March 2017.

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. These consolidated financial statements are available at the registered office of J&T FINANCE GROUP SE.

2. Basis of preparation of the separate financial statements

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

These separate financial statements have been prepared on the historical cost basis except for the following:

- Financial assets and liabilities held for trading are measured at fair value;
- Financial assets at fair value through profit or loss are measured at fair value;
- Hedging derivatives 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 is presented in thousands and has been rounded.

(e) Use of estimates and judgements

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

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

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

The accounting policies set out below have been applied consistently 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 operations, 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 receipts and payments 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 securities in the Loans and advances 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 commissions, 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, net income from derecognition of financial assets, net income from hedge accounting (except for items recognised in other comprehensive income) 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.

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

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

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

V. Fair value measurement
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 the 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. Summary of fair value hierarchy of financial instruments carried at fair value is presented in Note 4, summary of fair value hierarchy of financial instruments not carried at fair value is presented in Note 34.

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 and timing of recoveries. Default rates, loss rates and the expected timing of future recoveries are regularly compared to actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are calculated as the difference between the book value of the financial asset and the present value of estimated future cash flows discounted at the asset's original 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.

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, to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired financial asset available

for sale is recognised in other comprehensive income. Changes in impairment losses attributable to the time value of money are reflected as a component of Net interest income.

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

(i) 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 managing the risk 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 the 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 the 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 hedge 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 are compensated by the 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 statement of profit or loss under Net interest income. The positive value of hedging instruments is recognized in the 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 recognized 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 caption revaluation of hedging derivatives. The amount recognized 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.

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 caption 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.

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.

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 less impairment.

(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 the 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 instruments 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 rate 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 caption revaluation of financial assets available for sale 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 entities and associates

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Valuation and impairment losses are described in point 3 (h) (vi).

The Bank's investments in subsidiaries are accounted for at cost decreased by impairment losses, if any.

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.

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.

(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 a 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 asset part 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 a 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 are largely 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 rate 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.

(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

The following new standards, interpretations and amendments were not effective

for the reporting periods ending 31 December 2017 and were not applied in these financial statements:

IFRS 9 Financial Instruments

IFRS 9 replaces standard 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 implemented IFRS 9 on 1 January 2018.

I. Classification of financial assets
The new standard requires that all financial assets, except equity securities and derivatives are measured based on a combination of business model of the company for management of individual 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:

- amortized cost;
- fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI).

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

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

Financial assets that are held for collection of contractual cash flows, where the SPPI test criteria are met, are measured at amortised cost. Financial assets that are held both for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, where the SPPI test criteria are met, are measured at FVOCI.

Under IFRS 9, it is permitted to irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

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. According to IFRS 9, puttable instruments do not meet the definition of an equity instrument and therefore the Bank cannot make an irrevocable election to present the changes in fair value of such instruments in other comprehensive income.

II. Expected credit losses ('ECL')
IFRS 9 fundamentally changes the loss impairment calculations. The new standard replaces the incurred loss principle with an expected loss principle. The Bank will estimate and recognize expected credit losses for all loans and other financial assets, that are not valued at FVPL, including loan commitments and bank guarantees. 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. For the financial assets at FVOCI, the movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument cost which are recognised in profit or loss.

In accordance with IFRS 9, the Bank will classify the loans into the three stages for the purpose of expected credit loss calculation as follows:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1,
- Stage 2: If a significant increase in credit risk since initial recognition is identified or the Bank has no information on rating at initial recognition, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired,
- Stage 3: If the financial instrument is credit-impaired, it is moved to Stage 3.

The Bank considers quantitative and qualitative criteria in the assessment of significant increase in credit risk, for example: increase in probability of default since initial recognition over determined levels, if the borrower is more than 30 days past due on its contractual payments, covenant breach, negative information on the debtor etc.

The Bank calculates ECL either on an individual or portfolio basis. Individual basis means individual estimation of cash-flow at exposure level. For ECL calculated on a portfolio basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. The calculation of ECL on an individual basis for Stage 3 financial assets is generally based on three cash flow scenarios and each scenario is given a certain probability. The ECL is subsequently calculated as the probability-weighted amount of expected cash-flows from each scenario discounted using EIR.

III. Financial liabilities
The accounting for financial liabilities in accordance with IFRS 9 is largely 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 or 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.

IV. Hedge accounting
IFRS 9 allows entities to continue with the hedge accounting under IAS 39 or to apply IFRS 9. The Bank decided to implement IFRS 9.

V. Impact of IFRS 9 on the Bank
The adoption of IFRS 9 has resulted in changes in the Bank's classification of financial assets and financial liabilities and recalculation of expected credit losses. The total re-measurement of impairment allowances was recognised in the opening balance of retained earnings as at 1 January 2018.

The classification of financial assets and liabilities has not been changed with the transition to IFRS 9, with the exception of share certificates that were classified in the category financial assets available for sale under IAS 39. The Bank concluded that

share certificates held in the Bank's portfolio meet the definition of puttable instruments. According to IFRS 9, puttable instruments do not meet the definition of an equity instrument. Due to the cash flow characteristics of the assets, share certificates failed to meet the solely payments of principal and interest ('SPPI') requirement. As a result, share certificates in total carrying amount of € 179,907 thousand were re-classified from Available for sale to financial assets mandatorily at fair value through profit or loss from the date of initial application. At the same time, the revaluation reserve in total amount of € 4,802 thousand, including deferred tax impact, was reclassified from the category Revaluation of financial assets available for sale in equity to the opening balance of retained earnings.

The Bank calculated and booked the following expected credit losses and related deferred tax as at 1 January 2018:

€ '000

	ECL	Statement of financial position category
Expected credit losses	**(38,315)**	
Financial assets at amortized cost	(32,532)	Assets
Financial assets at FVOCI	(848)	Equity – revaluation reserve
Credit lines, bank guarantees and letters of credit	(4,935)	Liabilities – provisions
Deferred tax	**4,444**	Assets – deferred tax asset
Total impact on retained earnings	**(33,871)**	**Equity – retained earnings**

The following table shows a detail of the impact on the Bank's equity as at 1 January 2018:

€ '000

	Revaluation of financial assets	Retained earnings
Opening balance as at 1 January 2018	**12,618**	**217,887**
Expected credit losses and deferred tax	**848**	**(33,871)**
Financial assets at amortized cost	-	(32,532)
Financial assets at FVOCI	848	(848)
Credit lines, bank guarantees and letters of credit	-	(4,935)
Deferred tax	-	4,444
Change in classification	**(4,802)**	**4,802**
Adjusted opening balance as at 1 January 2018	**8,664**	**188,818**

IFRS 15 Revenue from contracts with customers

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 implemented IFRS 15 on 1 January 2018. The implementation of the standard did not have a material impact on the financial statements.

IFRS 16 Leases

(Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.)

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 2018 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:

- IFRS 17 Insurance contracts;
- 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 40 Transfers of Investment Property;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatment;
- Amendments to IFRS 2: Classification and Measurement of Share Based Payment Transactions;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures.

4. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for impairment

AAssets accounted for at amortized cost are assessed 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 valuation experts. The baseline for the valuation, according to the current methodology of the Bank, is the actual Bank`s estimate that reflects the valuation of collateral in case of forced realization achievable on the market. 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 impact the allowances as following:

Change in LGD in %	31.12.2017		31.12.2016	
	%	€ '000	%	€ '000
+/-5 %,	+/- 4.57%	+/- 7,390	+/- 5.12%	+/- 8,326
+/-10 %	+/- 9.15%	+/- 14,781	+/- 10.23%	+/- 16,653

'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 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) Financial risk management – 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 later in this note.

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 assessed for impairment on the basis described in accounting policy 3(h)(vi).

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 the 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.

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 a different fair value of financial instruments.

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

31 December 2017	Note	Level 1 € '000	Level 2 € '000	Level 3 € '000	Total € '000
Assets					
Financial assets held for trading	7	-	1,183	-	1,183
Financial assets available for sale	8	438,754	235,394	109,124	783,272
Hedging derivatives	11	-	-	-	-
Total		438,754	236,577	109,124	784,455
Liabilities					
Financial liabilities held for trading	7	-	5,846	-	5,846
Hedging derivatives	11	-	3,738	-	3,738
Total		-	9,584	-	9,584

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

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:

€ '000

Financial assets available for sale	31.12.2017	31.12.2016
At 1 January	69,387	57,481
Total gains or losses:		
in profit or loss	4,060	4,301
in other comprehensive income	223	2,685
Maturities and sales	(27,441)	(23,197)
Purchases	62,895	28,117
Transfers into the category	-	-
Transfers out of the category	-	-
Other	-	-
At 31 December	109,124	69,387

The following table shows information regarding the investment movements between all categories of valuation methods during 2017:

31 December 2017	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	-	-	-
Transfers out of the category	-	-	-
Total	-	-	-

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**	-

5. Financial and operational 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), Product Committee, Compensation Committee (NK), Disposal Committee (VK). Risk Management Committee and and Strategy 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, based on the recommendation of Risk Management Committee . The risk management process is a dynamic and constant process of identification, measurement, monitoring, control and reporting of risks within the Bank. For managing 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 internal 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 securities. For risk management reporting purposes, the Bank considers and consolidates all elements of its credit risk exposure (such as individual obligor default risk, concentration risk, country risk, sector risk, management failure or collateral valuation etc.).

Credit risk management within the Bank is the responsibility of the Retail Risk Management Department,("RRMD"), Corporate Financing Department (ďalej len "CFD"), Credit Risk Management Support Department ("CRMSD"), and Risk & Capital Management Department ("RCMD"). 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 loan. 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 on a yearly basis, 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 an 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 RRMD or CFD 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),
- Limits for related parties,
- 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.

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

	31.12.2017 € '000	31.12.2016 € '000
Individuals	929,812	725,219
Other services (accommodation services, real estate investment activities)	360,875	355,272
Energy sector	133,987	32,893
Real estate	212,524	112,053
Manufacturing companies	190,117	197,084
Trading companies	181,585	172,221
Financial services	181,312	505,797
Transport and telecommunication	113,238	73,267
Real estate construction	30,103	11,303
Health care and public services	16,440	368
Agriculture	496	518
Total	**2,350,489**	**2,185,995**

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

	31.12.2017 € '000	31.12.2016 € '000
Slovak Republic	1,702,847	1,453,550
Other EU countries	647,637	732,443
out of which: Czech republic	348,075	358,675
Cyprus	184,510	222,186
Luxembourg	115,000	88,440
Poland	3	63,087
Other EU member countries	49	55
Other countries outside EU	5	2
Spolu	**2,350,489**	**2,185,995**

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

	31.12.2017 € '000	31.12.2016 € '000
Other services (accommodation services, real estate investment activities)	108,517	107,824
Agriculture	1,019	-
Financial services	-	94,534
Total	**109,536**	**202,358**

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

	31.12.2017 € '000	31.12.2016 € '000
Slovak Republic	68,463	76,431
Other member countries of EU	41,073	125,927
out of which: Czech Republic	41,073	40,392
Cyprus	-	85,535
Total	**109,536**	**202,358**

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. Loans and advances with a value equal or higher than € 166 thousand are assessed individually.

Individually assessed loans and advances

The Bank uses an internal rating system for providing and monitoring 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	
	31.12.2017 € '000	31.12.2016 € '000	31.12.2017 € '000	31.12.2016 € '000	31.12.2017 € '000	31.12.2016 € '000	31.12.2017 € '000	31.12.2016 € '000
Individually assessed								
Not-impaired	1,455,814	1,517,102	704,788	626,334	883,094	1,005,816	172,325	232,088
Out of which:								
Overdue	-	1,307	-	-	-	-	-	-
Impaired	141,225	194,565	-	-	-	-	86,310	6,408
Out of which:								
Defaulted	130,898	177,387	-	-	-	-	71,848	6,339
Restructured	64,605	99,320	-	-	-	-	1,206	3,055
Book value	1,597,039	1,711,667	704,788	626,334	883,094	1,005,816	258,635	238,496
Allowance for impairment	(64,014)	(60,121)	-	-	-	-	-	-
Net book value	**1,533,025**	**1,651,546**	**704,788**	**626,334**	**883,094**	**1,005,816**	**258,635**	**238,496**
Collectively assessed								
Not-impaired	751,808	550,533	-	-	-	-	132,964	100,175
Impaired	166,546	173,787	-	-	-	-	-	-
Out of which:								
Defaulted	104,617	114,115	-	-	-	-	-	-
Book value	918,354	724,320	-	-	-	-	132,964	100,175
Allowance for impairment	(105,348)	(110,343)	-	-	-	-	-	-
Net book value	813,006	613,977	-	-	-	-	132,964	100,175
Net book value total	**2,346,031**	**2,265,523**	**704,788**	**626,334**	**883,094**	**1,005,816**	**391,599**	**338,672**

Loans and advances as at 31 December 2017	Gross receivables € '000	Impairment allowances € '000	Net receivables € '000
Non-performing			
Without relief	136,002	97,928	38,074
With relief refinanced	22,905	6,840	16,065
With relief in form of conditions modification	80,546	43,013	37,533
Non-performing total	239,453	147,781	91,672
Performing:			
Without relief	2,234,709	16,983	2,217,726
With relief refinanced	386	47	339
With relief in form of conditions modification	40,845	4,551	36,294
Performing total	2,275,940	21,581	2,254,359
Total	2,515,393	169,362	2,346,031

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	41,292	6,890	34,402
With relief in form of conditions modification	97,155	37,803	59,352
Non-performing total	283,803	140,013	143,790
Performing:			
Without relief	2,122,287	27,702	2,094,585
With relief refinanced	649	86	563
With relief in form of conditions modification	29,248	2,663	26,585
Performing total	2,152,184	30,451	2,121,733
Total	2,435,987	170,464	2,265,523

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.

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 collateral value assessed of concluding the deal and are reassessed on a regular basis. 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 loans and advances to customers is shown below:

Loans and advances to customers	31.12.2017 € '000	31.12.2016 € '000
Against individually not impaired loans		
Real estate	157,957	168,760
Movables	17,221	25,840
Debt securities	102,716	82,496
Equity securities	250,904	298,890
Other	145,035	175,542
	673,833	751,528
Against individually impaired loans		
Real estate	43,595	91,822
Movables	9,113	9,834
Bank guarantees	-	-
Other	323	5,915
	53,031	107,571
Against collectively assessed loans		
Real estate	75,824	5,989
Movables	-	-
Other	21	58
	75,845	6,047
Total	802,709	865,146

Assets obtained by taking possession of collateral

During the year the Bank did not obtain any assets by taking possession of collateral. In 2016 the Bank obtained into its assets by taking possession of collateral in net book value of € 50 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
- Creditworthy 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 CFD – 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 Retail Credit Recovery Section (RCRS) is responsible for collection of retail loans. In the retail segment, the recovery process for overdue receivables is defined and centrally operated by systems. 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 RCRS. 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

AThe 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 counterparty 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.

(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 back-up sources. All liquidity policies and procedures are subject to review and approval by ALCO Committee. 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 assets, 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.

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		Liquidity coverage ratio	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
End of the period	0.53	0.54	1.79	1.99
Average for the period	0.53	0.61	2.03	2.04
Maximum for the period	0.57	0.65	2.32	2.29
Minimum for the period	0.50	0.54	1.79	1.84

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.

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:

€ '000

	31 December 2017			31 December 2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Assets						
Cash and balances at central banks	760,008	-	760,008	659,214	-	659,214
Financial assets held for trading	1,183	-	1,183	513	199	712
Financial assets available for sale	136,519	646,753	783,272	83,132	746,328	829,460
Financial assets held to maturity	14,998	266,412	281,410	68,043	281,620	349,663
Loans and advances	492,987	1,853,044	2,346,031	645,485	1,620,038	2,265,523
Loans and advances to financial institutions	55,368	-	55,368	47,634	-	47,634
Loans and advances to customers	436,600	1,744,527	2,181,127	512,325	1,503,206	2,015,531
Debt securities	1,019	108,517	109,536	85,526	116,832	202,358
Hedging derivatives	-	-	-	-	-	-
Investment in subsidiary, jointly controlled entities and associates	-	41,812	41,812	-	41,539	41,539
Tangible assets	-	9,741	9,741	-	10,047	10,047
Intangible assets	-	23,886	23,886	-	17,653	17,653
Deferred tax receivable	-	11,693	11,693	-	13,876	13,876
Current tax receivable	3,104	-	3,104	202	-	202
Other assets	48,657	-	48,657	68,127	-	68,127
Total assets	**1,457,456**	**2,853,341**	**4,310,797**	**1,524,716**	**2,731,300**	**4,256,016**
Liabilities						
Financial liabilities held for trading	5,846	-	5,846	277	-	277
Financial liabilities at amortized costs	3,407,590	209,762	3,617,352	3,177,019	431,253	3,608,272
Financial liabilities to financial institutions	5,573	-	5,573	4,242	-	4,242
Customer accounts	3,402,004	201,762	3,603,766	3,172,764	423,253	3,596,017
Subordinated debt	13	8,000	8,013	13	8,000	8,013
Hedging derivatives	-	3,738	3,738	206	4,857	5,063
Current tax liability	752	-	752	3,862	-	3,862
Provisions	-	1,186	1,186	-	1,455	1,455
Other liabilities	39,189	-	39,189	29,995	-	29,995
Total liabilities	**3,453,377**	**214,686**	**3,668,063**	**3,211,359**	**437,565**	**3,648,924**

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 actual cash flows may be different from the analysis below.

€ '000

	Total carrying amount	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years	Contractual cash flow total
31 December 2017						
Financial liabilities at amortized costs						
Financial liabilities to financial institutions	5,573	5,573	-	-	-	5,573
Customer accounts	3,603,766	2,884,642	519,350	182,723	25,396	3,612,111
Subordinated debt	8,013	105	322	9,177	-	9,604
Other liabilities (only financial liabilities)	38,785	38,785	-	-	-	38,785
Total	**3,656,137**	**2,929,105**	**519,672**	**191,900**	**25,396**	**3,666,073**
31 December 2016						
Financial liabilities at amortized costs						
Financial liabilities to financial institutions	4,242	4,242	-	-	-	4,242
Customer accounts	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**

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 actual cash flows may be different from the analysis below.

€ '000

	Total carrying amount	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years	Contractual cash flow total
31 December 2017						
Commitments and contingencies						
Guarantees to customers	26,936	150	6,755	12,779	7,252	26,936
Irrevocable letters of credit	4,216	-	-	4,216	-	4,216
Confirmed credit lines	364,663	364,663	-	-	-	364,663
Total	**395,815**	**364,813**	**6,755**	**16,995**	**7,252**	**395,815**
Nominal amount of derivatives						
Currency swaps	834,131	508,873	325,258	-	-	834,131
Hedging derivatives	193,610	-	-	190,610	3,000	193,610
Total	**1,027,741**	**508,873**	**325,258**	**190,610**	**3,000**	**1,027,741**

€ '000

	Total carrying amount	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years	Contractual cash flow total
31 December 2016						
Commitments and contingencies						
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	**354,571**	**311,217**	**19,023**	**24,276**	**55**	**354,571**
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**

(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 Committee. 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 approved by the Board of Directors. 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 level 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 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 Bank uses a concept of Expected shortfall through which it 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 the ALCO Committee and departments responsible for risk position management. Information on market risks development is regularly submitted to ALCO.

A summary of the VaR position:

€ '000

	31.12.2017	Average 2017	Maximum 2017	Minimum 2017
VaR trading book	2	11	43	1
VaR banking book	1,450	1,651	1,886	1,405
VaR total	1,450	1,652	1,885	1,405
out of which interest rate risk	1,040	1,111	1,298	927
out of which credit spread risk	1,398	1,415	1,612	1,255
out of which foreign exchange risk	2	10	43	1

€ '000

	31.12.2016	Average 2016	Maximum 2016	Minimum 2016
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

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. 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:

€ '000

	2017		2016	
	200 bp parallel increase	200 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease
As at 31 December	(53,195)	(797)	(46,804)	(11)
Average for the period	(49,855)	(74)	(55,343)	1,895
Maximum for the period	(53,647)	(5)	(63,242)	7,773
Minimum for the period	(43,829)	(797)	(46,519)	(2,520)

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

€ '000

	2017		2016	
	200 bp parallel increase	200 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease
As at 31 December	(29,642)	29,642	(37,922)	37,922
Average for the period	(33,274)	33,274	(41,672)	41,672
Maximum for the period	(37,587)	37,587	(43,910)	43,910
Minimum for the period	(27,909)	27,909	(37,922)	37,922

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 the 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 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, 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 has implemented a process of operational risk identification, usage of key risk indicators ('KRIs'), self-evaluation procedures, planning of the unforeseeable events and aims to secure business continuity and manage its operational risk 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 the 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 audit,
- minimalization of the risk related to outsourcing when extraordinary events occur etc.

(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 own 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 ("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 2017 according to the Capital Requirement Regulation is displayed in the following table:

Regulatory capital	31.12.2017 € '000	31.12.2016 € '000
Tier I Capital		
Share capital and share premium	367,043	367,043
Reserve funds and other funds created from profit	45,159	40,234
Selected components of accumulated other comprehensive income	12 645	10,114
Profit or loss of previous years	170,000	140,447
Intangible assets	(23,886)	(17,653)
Additional valuation adjustments	(2,490)	(1,667)
Total Tier I Capital	568,471	538,518
Tier II Capital		
Subordinated debt	5,958	7,558
Total Tier II Capital	5,958	7,558
Regulatory capital total	**574,429**	**546,076**

Requirements on own funds in accordance with the Capital Requirement Regulation are displayed in the following table.

Capital Resources Requirements	31.12.2017 € '000	31.12.2016 € '000
Capital required to cover:		
Credit risk	229,321	218,291
Risk on value adjustments to receivables	58	109
Risks from debt financial instruments, capital instruments, foreign exchange and commodities	-	23
Operational risk	27,898	29,587
Total capital requirements	257,277	248,010
Capital ratios		
Total capital level as a percentage of total risk weighted assets	17.86%	17.61 %
Tier 1 capital as a percentage of total risk weighted assets	17.68%	17.37 %
Tier 1 own capital as a percentage of total risk weighted assets	17.68%	17.37 %

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 on 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 € 32,053 thousand.

	31.12.2017 € '000	31.12.2016 € '000
Cash and balances at central banks		
Balances at central banks	20,952	359,134
Term deposits with contractual maturity of 3 months or less	213,825	267,200
Reverse REPO transactions with central banks	470,011	-
	704,788	626,334
Cash		
Cash in hand	25,114	23,742
Other	30,106	9,138
Total	760,008	659,214

Reverse REPO transactions with central banks are secured by treasury notes issued by the central bank in nominal amount of € 463,521 thousand.

Cash and cash equivalents are as follows:

	31.12.2017 € '000	31.12.2016 € '000
Cash and balances at central banks - term deposits at central banks with contractual maturity of 3 months or less	213,825	267,200
Cash and balances at central banks - Reverse REPO transactions with central banks	470,011	-
Cash - Cash in hand	25,114	23,742
Cash - Other	30,106	9,138
Loans and advances to financial institutions – repayable on demand (note 10)	17,545	7,372
Loans and advances to banks – other loans and advances with contractual maturity of 3 months or less (note 10)	30,003	35,004
Total	786,604	342,456

7. Financial assets and liabilities held for trading

	31.12.2017 € '000	31.12.2016 € '000
Financial assets held for trading		
Securities (a)	-	199
Derivative instruments (b)	1,183	513
Total	1,183	712
Financial liabilities held for trading		
Derivative instruments (b)	5,846	277

a) Securities

	31.12.2017 € '000	31.12.2016 € '000
Equity securities	-	199
Total	-	199

b) Derivative instruments

€ '000

	31.12.2017			31.12.2016		
	Contractual/ notional value	Fair value		Contractual/ notional value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps						
Currency swaps	834,131	1,183	5,846	389,375	513	277

8. Financial assets available for sale

	31.12.2017 € '000	31.12.2016 € '000
Debt securities:		
Slovak government bonds	99,919	163,814
Government bonds of EU member countries	338,835	369,345
Mortgage bonds	53,870	53,795
Corporate bonds	109,060	69,199
	601,684	656,153
Equity securities:		
Equity securities and share certificates	186,401	173,119
Other	65	224
	186,466	173,343
Impairment losses for available-for-sale financial assets – equity securities	(4,878)	(36)
Total	**783,272**	**829,460**

9. Financial assets held to maturity

	31.12.2017 € '000	31.12.2016 € '000
Slovak government securities	255,339	323,563
Government bonds of EU member countries	5,070	5,105
Mortgage bonds	21,001	20,995
Total	**281,410**	**349,663**

As at 31 December 2017, the Bank pledged securities with a carrying value of € 191,963 thousand (2016: € 190,218 thousand), out of which held-to-maturity amounted to € 168,385 thousand (2016: € 166,620 thousand). All pledged transactions were held with financial institutions by the Group as at 31 December 2017 and 2016.

10. Loans and advances

Loans and advances to financial institutions	31.12.2017 € '000	31.12.2016 € '000
Repayable on demand	17,545	7,372
Collateral	7,820	5,258
Other loans and advances to banks by original contractual maturity:		
3 months or less	30,003	35,004
Total	55,368	47,634

Loans and advances to customers	31.12.2017 € '000	31.12.2016 € '000
Repayable on demand, up to 3 months	191,334	237,837
Other loans and advances to customers by contractual maturity:		
1 year or less but over 3 months	28,966	47,679
5 years or less but over 1 year	362,302	589,177
over 5 years	1,767,887	1,311,302
	2,350,489	2,185,995
Allowances for impairment	(169,362)	(170,464)
Total	2,181,127	2,015,531

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

Individual allowances for impairment	2017 € '000	2016 € '000
As at 1 January	60,121	49,154
Movements from changes in foreign exchange rates	647	-
Net charge to profit or loss	28,651	16,730
Release of impairment losses on assigned loans	(25,405)	(5,763)
As at 31 December	64,014	60,121

Collective allowances for impairment	2017 € '000	2016 € '000
As at 1 January	110,343	85,175
Movements from changes in foreign exchange rates	(1)	(1)
Net charge to profit or loss	25,347	34,364
Release of impairment losses on assigned loans	(30,341)	(9,195)
As at 31 December	105,348	110,343
Impairment allowances total	169,362	170,464

Impairment losses for financial assets not valued at fair value through profit and loss	2017 € '000	2016 € '000
Impairment loss for loans and receivables	(53,998)	(51,094)
Write off of loans and receivables	55,746	14,959
Loss from write off of loans and receivables	(40,599)	(14,380)
Impairment loss for financial assets available for sale	(4,878)	(36)
	(43,729)	(50,551)

Debt securities	31.12.2017 € '000	31.12.2016 € '000
Corporate bonds	108,517	116,823
Bill of exchange	1,019	85,535
Total	109,536	202,358

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 2017, 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 2017, the Bank reported a net gain on the hedging instruments in the amount of € 1,134 thousand (2016: € loss 3,733 thousand) and a net loss on the hedged items relating to hedged risk of € 1,134 thousand (2016: gain € 3,733 thousand). Both items are presented on the line "Net trading income".

During 2017, interest and similar income from hedged securities from the Financial assets available for sale since the origin date of hedging, amounting to € 4,052 thousand (2016: € 4,318), were offset by interest expense from interest rate swaps which represent hedging instruments in the amount of € 1,122 thousand (2016: € 893 thousand).

The contracted or notional amounts and positive and negative fair values of unpaid positions of hedging derivatives as at 31 December 2017 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	31.12.2017 € '000	31.12.2016 € '000
Hedging derivatives - assets	-	-
Hedging derivatives - liabilities	3,738	5,063

€ '000

	31.12.2017			31.12.2016		
	Contractual/ notional value	Fair value		Contractual/ notional value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Hedging derivatives						
Interest rate swaps	193,610	-	3,738	203,610	-	5,063

12. Investments in subsidiaries, jointly controlled entities and associates

	31.12.2017 tis. eur	31.12.2016 tis. eur
PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s. a dcérske spoločnosti („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.	605	55
PB Partner, a. s.	4,603	4,603
SPPS, a. s.	140	140
PB Finančné služby, a. s.	4,615	4,615
PB IT, a. s. v likvidácii	55	55
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	474	198
365.world o.p.f.	2,000	-
	45,351	42,525
Impairment loss on investments	(3,539)	(986)
Total	41,812	41,539

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

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

The movements in impairment losses (Impairment loss on investments) were as follows:

	2017 € '000	2016 € '000
As at 1 January	986	986
Impairment loss on investments (note 29)	2,553	-
As at 31 December	3,539	986

13. Tangible assets

€ '000

	Land and buildings	Furniture, fittings and equipment	Motor vehicles	Assets not yet in use	Total
Cost					
As at 1 January 2017	10,491	21,752	443	542	33,228
Additions	-	-	-	3,255	3,255
Transfers	6	2,719	-	(2,725)	-
Disposals	(2,991)	(4,772)	(171)	-	(7,934)
As at 31 December 2017	7,506	19,699	272	1,072	28,549
Accumulated depreciation					
As at 1 January 2017	(5,110)	(16,205)	(443)	-	(21,758)
Depreciation for the year	(202)	(2,471)	-	-	(2,673)
			-	-	
Disposals	1,668	4,662	171	-	6,501
As at 31 December 2017	(3,644)	(14,014)	(272)	-	(17,930)
Impairment loss	(845)	(33)	-	-	(878)
Net book value					
As at 31 December 2017	3,017	5,652	-	1,072	9,741

€ '000

	Land and buildings	Furniture, fittings and equipment	Motor vehicles	Assets not yet in use	Total
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)
Disposals	1,046	3,108	32		4,186
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

Movements in impairment losses were as follows:

	2017 € '000	2016 € '000
As at 1 January	1,423	686
Impairment loss on tangible assets	(545)	737
As at 31 December	878	1,423

The Bank uses fully depreciated tangible assets with an acquisition cost of € 10,559 thousand (2016: € 11,753 thousand) as at 31 December 2017.

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 € 9,957 thousand (2016: € 9,506 thousand). The Bank's property is not pledged.

14. Intangible assets

€ '000

	Software	Assets not yet in use	Total
Cost			
As at 1 January 2017	47,486	4,297	51,783
Additions	-	11,378	11,378
Transfers	11,066	(11,066)	-
Disposals	(15,080)	-	(15,080)
As at 31 December 2017	43,472	4,609	48,081
Accumulated amortization			
As at 1 January 2017	(34,130)	-	(34,130)
Amortization for the year	(5,145)	-	(5,145)
Disposals	15,080	-	15,080
As at 31 December 2017	(24,195)	-	(24,195)
Net book value			
As at 31 December 2017	19,277	4,609	23,886

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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)
As at 31 December 2016	(34,130)	-	(34,130)
Net book value			
As at 31 December 2016	13,356	4,297	17,653

The Bank uses fully amortized intangible assets with an acquisition cost of € 7,881 thousand (2016: € 22,104 thousand) as at 31 December 2017.

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% (2016: 21%) and are as follows

Deferred tax asset	Assets/(liabilities) 31.12.2017 € '000	Assets/(liabilities) 31.12.2016 € '000
Tangible assets	(325)	(375)
Bonuses	980	869
Impairment losses on receivables	11,710	10,729
Impairment losses on non-financial assets	77	125
Impairment losses on financial assets available for sale	512	-
Discount on assigned receivables	80	167
Discount on rental contracts	32	40
Provisions	244	306
Other	1,714	1,297
Financial assets available for sale	(3,354)	(2,852)
Impairment loss on investments in subsidiary, jointly controlled entities and associates	-	207
Tax losses not utilized	-	3,348
Total	11,670	13,861

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

Deferred tax asset	Assets/(liabilities) 31.12.2017 € '000	Assets/(liabilities) 31.12.2016 € '000
Tangible assets	(1)	(1)
Bonuses	24	16
Total	23	15

Movements in deferred tax	2017 € '000	2016 € '000
As at 1 January	13,876	13,705
Through profit or loss (note 30)	(1,682)	(1,437)
Charged to other comprehensive income	(501)	1,608
As at 31 December	11,693	13,876

16. Other assets

	31.12.2017 € '000	31.12.2016 € '000
Other debtors	16,864	16,604
Receivables from settlement of securities	12,767	31,936
Deferred expenses	13,991	15,043
Prepayments	3,270	3,609
Accrued income	879	427
Inventory	608	343
Items in the course of clearing from post offices	411	421
Other	396	1,977
Receivables from subsidiary	-	134
	49,186	70,494
Allowances for impairment	(529)	(2,367)
Total	48,657	68,127

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:

	2017 € '000	2016 € '000
As at 1 January	2,367	424
Impairment loss on other assets	(1,838)	1,943
As at 31 December	529	2,367

Impairment loss on other assets	2017 € '000	2016 € '000
(Creation)/ release of impairment loss for other assets	1,838	(1,943)
Income from sale of other assets	50	-
Write-off of other assets	(1,594)	-
	294	(1,943)

17. Financial liabilities at amortized cost

Financial liabilities to financial institutions	31.12.2017 € '000	31.12.2016 € '000
Repayable on demand	5,213	4,062
Collateral	360	180
Total	5,573	4,242

Financial liabilities to customers	31.12.2017 € '000	31.12.2016 € '000
Repayable on demand	1,838,058	1,630,297
Other deposits with contractual maturity dates or periods of notice, by original contractual maturity:		
up to 3 months	835,083	984,089
3 months to 1 year	453,782	396,847
1 year to 5 years	468,780	583,721
above to 5 years	8,063	1,063
Total	3,603,766	3,596,017

Subordinated debt	31.12.2017 € '000	31.12.2016 € '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:

	31.12.2017 € '000	31.12.2016 € '000
As at 1 January	1,455	1,960
Creation of provision	1,132	449
Release of provision	(1,401)	(954)
As at 31 December	1,186	1,455

19. Other liabilities

	31.12.2017 € '000	31.12.2016 € '000
Other creditors	31,825	23,004
Liabilities to employees	3,899	3,895
VAT, payroll and other tax liabilities	1,956	1,632
Withholding taxes payable	1,083	985
Advances received	220	220
Accrued expenses	178	234
Liability to shareholders	22	18
Other	6	7
Total	39,189	29,995

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 the effect of hedging derivatives 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 2017 profit

Poštová banka, a.s. achieved a profit of € 47,887 thousand for the year ended 31 December 2017. The Board of Directors will propose the distribution of profit for the year ended 31 December 2017 as allocation to Legal reserve fund of € 4,789 thousand, dividends and allocation to retained earnings. The distribution of profit for the year ended 31 December 2017 is subject to approval of the shareholders at General meeting. The amounts of dividends and allocation to retained earnings have not yet been approved by the shareholders at General meeting.

e) Dividends for 2016

The General Meeting of shareholders held on 20 June 2017 decided that dividends will be paid to shareholders in amount of € 14,776 thousand.

21. Contingencies, commitments and derivative financial instruments

	31.12.2017 € '000	31.12.2016 € '000
Contingencies and committments		
Guarantees to customers	26,936	28,672
Irrevocable letters of credit	4,216	16,800
Confirmed credit lines	364,663	309,999
Derivative financial instruments		
Liabilities from trading derivatives (note 7)	834,131	389,375
Liabilities from hedging derivatives (note 11)	193,610	203,610
Total	1,423,556	948,456

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

€ '000

	31 December 2017			31 December 2016		
	Guarantees to clients	Irrevocable letters of credits	Confirmed credit lines	Guarantees to clients	Irrevocable letters of credits	Confirmed credit lines
Slovak Republic	11,930	4,216	258,128	21,257	16,800	198,258
Czech Republic	2,691	-	106,518	2,604	-	111,725
European Union countries	5,091	-	11	4,811	-	10
Other European countries	7,224	-	6	-	-	6
Total	26,936	4,216	364,663	28,672	16,800	309,999

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

€ '000

	31 December 2017			31 December 2016		
	Guarantees to clients	Irrevocable letters of credits	Confirmed credit lines	Guarantees to clients	Irrevocable letters of credits	Confirmed credit lines
Finančné služby	10,191	-	99,976	20,175	-	32,632
Energetický priemysel	7,224	-	28,037	-	-	50,000
Stavebníctvo	5,030	-	2,294	3,000	-	4,994
Veľkoobchod	3,216	-	1,434	2,994	-	4,305
Služby, predaj tovarov	1,093	4,216	88,267	928	16,800	91,880
Priemyselná výroba	107	-	4,660	1,500	-	3,790
Prenájom	50	-	6,176	50	-	17,300
Zdravotníctvo	25	-	43	25	-	78
Maloobchod	-	-	964	-	-	1,992
Činnosti domácností	-	-	132,812	-	-	103,028
Total	26,936	4,216	364,663	28,672	16,800	309,999

22. Net interest income

Interest income	2017 € '000	2016 € '000
Deposits at the Central bank	337	225
Financial assets held for trading	3	26
Financial assets available for sale	7,081	7,143
Financial assets held to maturity	10,734	13,312
Loans and advances, out of which:	157,199	170,347
Loans and advances to financial institutions	960	336
Loans and advances to customers	146,777	152,472
Debt securities	9,462	17,539
Hedging derivatives – interest rate risk	(1,122)	(893)
Other	39	38
Total	174,271	190,198

Accrued interest for impaired loans of € 6,603 thousand for the period ended 31 December 2017 (2016: € 7,993 thousand) is also included in the interest income caption. The bank does not recognize accrued interest for defaulted loans.

Interest expense	2017 € '000	2016 € '000
Financial liabilities valued at amortized cost, out of which:	(14,462)	(26,468)
Financial liabilities to financial institutions	(944)	(360)
Customer accounts	(13,091)	(25,679)
Subordinated debt	(427)	(429)
Other	(17)	(36)
Total	(14,479)	(26,504)
Net interest income	159,792	163,694

23. Net fee and commission income

Fee and commission income	2017 € '000	2016 € '000
Administration and custody of securities	1,805	1,363
Loans, credit limits, guarantees and letters of credit	3,490	4,074
Clearing operations - banks	2,382	2,114
Payments and accounts administration	25,343	26,727
Other	9,532	10,255
Total	42,552	44,533

Fee and commission expense	2017 € '000	2016 € '000
Administration and custody of securities	(169)	(145)
Other transaction and settlement fees	(20,303)	(23,176)
Total	(20,472)	(23,321)
Net fee and commission income	22,080	21,212

24. Dividend income

	2017 € '000	2016 € '000
Dividend income from investments in subsidiaries, jointly controlled entities and associates	8,497	8,569
Dividend income from financial assets available for sale	2,008	3,503
Total	10,505	12,072

25. Net trading income

	2017 € '000	2016 € '000
Foreign exchange gains	51,335	2,223
Results from hedging interest rates derivatives	1,134	(3,733)
Results from hedged items – financial assets available for sale	(1,134)	3,733
Net profit from disposed financial assets and liabilities not valued at fair value through profit and loss	1,066	5,985
Out of which: Financial assets available for sale	880	5,985
Loans and advances and financial assets held to maturity	186	-
Net profit from financial assets and liabilities held for trading	(39,251)	(1,084)
Out of which: Securities	45	87
Foreign exchange derivative instruments	(39,296)	(1,171)
Total	13,150	7,124

26. Net other operating expenses

	2017 € '000	2016 € '000
Special levy for banking institutions	(7,277)	(7,246)
Resolution fund	(413)	(661)
Deposit protection fund	(342)	(1,089)
Total	(8,032)	(8,996)
Shortages and damages	(611)	(152)
Other	1,728	1,485
Net loss from disposals of tangible assets	(381)	(246)
Rental	27	38
Reimbursements received	104	49
Total	867	1,174
Total	(7,165)	(7,822)

27. Administrative expenses

	2017 € '000	2016 € '000
Wages and salaries (including bonuses)	(27,116)	(23,796)
Social expenses	(10,428)	(8,610)
Personnel costs	(37,544)	(32,406)
Services	(16,949)	(17,679)
Operating expenses	(1,414)	(1,016)
Marketing expenses	(10,271)	(4,684)
Rent	(9,005)	(7,431)
Material expenses	(1,563)	(1,457)
Other administrative expenses	(1,260)	(1,198)
Other services	(3,277)	(1,858)
Total	(81,283)	(67,729)
Average number of employees for the period	1,051	891
of which, management	30	27

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

	2017 € '000	2016 € '000
Statutory audit	(178)	(209)
Other audit related assurance services (required by EU or national legislation)	(88)	(101)
Other assurance services – audit of receivables towards bank clients for purpose of applying bankruptcy proceedings	(2)	-
Other permitted non-audit services	(5)	(1)
Total	(273)	(311)

Audit costs for Branch were € 15 thousand in 2017 (2016: € 17 thousand).

Other audit-related assurance services performed by the statutory auditor were related to audit of the group reporting and to audit of the Bank's prudential returns, preparation of the long form report as required by the national or European Union legislation.

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

	31.12.2017 € '000	31.12.2016 € '000
Up to 1 year	625	4,279
1-5 years	3,502	238
Over 5 years	502	-
Total	4,629	4,517

28. Depreciation and amortization

	2017 € '000	2016 € '000
Tangible assets (note 13)	(2,673)	(2,702)
Intangible assets (note 14)	(5,145)	(4,101)
Total	(7,818)	(6,803)

29. Impairment loss and creation of provisions

	2017 € '000	2016 € '000
Impairment loss on financial assets not valued at fair value through profit and loss	(43,729)	(50,551)
Loans and advances (note 10)	(38,851)	(50,515)
Financial assets available for sale (note 8)	(4,878)	(36)
Impairment loss on investments in subsidiary, jointly controlled entities and associates (note 12)	(2,553)	-
Impairment loss on non-financial assets	839	(2,680)
Tangible assets (note 13)	545	(737)
Other assets (note 16)	294	(1,943)
Release/(creation) of provisions (note 18)	269	505
Total	(45,174)	(52,726)

30. Income tax

	2017 € '000	2016 € '000
Current income tax expense, out of which:	(14,518)	(18,331)
Current year	(14,704)	(18,253)
Correction of previous period	186	(78)
Deferred tax (note 15)	(1,682)	(1,437)
Total	(16,200)	(19,768)

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

Deferred tax and current income tax expense for the Czech branch was calculated using a rate of 19% in 2017 and 2016.

Reconciliation of the effective tax rate:	Tax base 2017 € '000	Tax at 21% 2017 € '000	Tax base 2016 € '000	Tax at 22% 2016 € '000
Profit before taxation	64,087	13,458	69,022	15,185
Tax deductible items:				
Dividend income	(8,505)	(1,786)	(8,569)	(1,885)
Bonuses and provisions	(4,351)	(914)	(3,025)	(666)
Other provisions	(7,487)	(1,572)	(7,872)	(1,732)
Income from write off of receivables	(413)	(87)	(684)	(150)
Release of impairment loss allowances	(17,524)	(3,680)	(3,728)	(820)
Other	(100)	(21)	(323)	(71)
	(38,380)	(8,060)	(24,201)	(5,324)

	Tax base 2017 € '000	Tax at 21% 2017 € '000	Tax base 2016 € '000	Tax at 22% 2016 € '000
Tax non-deductible items:				
Impairment losses on loans and advances to clients	40,258	8,454	39,044	8,590
Difference between tax and accounting depreciation	237	50	495	109
Bonuses and provisions	4,841	1,017	4,237	932
Other provisions	9,377	1,969	6,463	1,422
Other	3,999	840	3,852	847
	58,712	12,330	54,091	11,900
Income tax expense before utilizing tax		17,728		21,761
Losses carried forward –use		(3,348)		(3,508)
Credit of tax paid abroad		(1,141)		(703)
Tax payable		13,239		17,550
Withholding tax		4		-
Tax paid abroad		1,461		703
Correction of previous period		(186)		78
Deferred tax		1,682		1,437
Total income tax		16,200		19,768
Effective tax rate		25.28 %		28.64 %

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):

€ '000

				Possible effect of master netting agreements which do not fulfill requirements for offsetting in the statement of financial position			
31 December 2017	**Values, gross**	**Offset gross values**	**Presented values, net**	**Financial instru-ments**	**Cash collateral**	**Non-cash financial collateral**	**Net values after possible offsetting**
Financial assets							
Currency derivatives	1,183	-	1,183	1,183	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Total assets	1,183	-	1,183	1,183	-	-	-
Financial liabilities							
Currency derivatives	5,846	-	5,846	1,183	2,318	-	2,345
Hedging derivatives	3,738	-	3,738	-	3,373	-	365
Total liabilities	9,584	-	9,584	1 183	5,691	-	2,710

€ '000

31 December 2016	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 offsetting
				Financial instru-ments	Cash collateral	Non-cash financial collateral	
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

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 (a), (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.

€ '000

31 December 2016	Share-holders	Companies related to shareholders	Subsidiaries	Jointly controlled entity	Associate	Key man-agement personnel (KMP)	Related parties to KMP	Others
Assets								
Financial assets held for trading	-	228	-	-	-	-	-	-
Financial assets avail-able for sale	-	24,322	-	-	-	-	-	
Loans and advances	-	1,655	31,172	-	-	843	92	61,928
Loans and advances to financial institutions	-	1,655	-	-	-	-	-	-
Loans and advances to customers	-	-	31,172	-	-	843	92	61,928
Other assets	-	-	1,738	88	-	-	-	241
Liabilities								
Financial liabilities held for trading	-	1,620	-	-	-	-	-	-
Financial liabilities at amortized cost	-	12,313	26,385	2,579	-	285	229	11,549
Financial liabilities to financial institutions	-	-	-	-	-	-	-	-
Customer accounts	-	4,300	26,385	2,579	-	285	229	11,549
Subordinated debt	-	8,013	-	-	-	-	-	-
Other liabilities	-	3	2,214	2	-	-	-	22
Income/ expenses								
Net interest income	47	480	(5,267)*		-	6	(1)	1,995
Net income from fees and commissions	29	(7)	3,222	1,316	-	3	1	(109)
Net trading income/ (loss)	-	(16,442)	-	-	-	-	-	-
Net other operating income/ (expenses)	-	70	212	83	-	-	-	-
Administrative expenses	-	(16)	(6,925)	-	(3)	(2,890)	-	(219)

€ '000

31 December 2016	Share-holders	Companies related to shareholders	Subsidiaries	Jointly controlled entity	Associate	Key man-agement 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
Financial liabilities to financial institutions	-	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/ (loss)	-	(113)	-	-	-	-	-	-
Net other operating income/ (expenses)	-	9	499	55	1	-	-	-
Administrative expenses	-	(19)	(8,426)	-	-	(3,472)	-	-

* Net interest income includes fees and commissions to brokers included in the effective interest

Total remuneration and bonuses paid to members of the Supervisory board and Board of directors in 2017 was € 2,890 thousand (2016: € 3,472 thousand).

33. Custodial services

The Bank administers assets received into its custody from customers totaling € 400,886 thousand (2016: € 299,776 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:

€ '000

31 December 2017	Carrying value	Level 1	Level 2	Level 3	Fair value
Financial assets					
Cash and balances with central banks	760,008	-	760,008	-	760,008
Financial assets held to maturity	281,410	292,254	21,022	-	313,276
Loans and advances	2,346,031	-	55,368	2,376,789	2,432,157
Loans and advances to financial institutions	55,368	-	55,368	-	55,368
Loans and advances to customers	2,181,127	-	-	2,268,317	2,268,317
Debt securities	109,536	-	-	108,472	108,472
Other assets (only financial assets)	30,276	-	30,276	-	30,276
Financial liabilities					
Financial liabilities at amortized cost	3,617,352	-	3,621,581	-	3,621,581
Financial liabilities to financial institutions	5,573	-	5,573	-	5,573
Financial liabilities to customers	3,603,766	-	3,607,358	-	3,607,358
Subordinated debt	8,013	-	8,650	-	8,650
Other liabilities (only financial liabilities)	38,785	-	38,785	-	38,785

€ '000

31 December 2016	Carrying value	Level 1	Level 2	Level 3	Fair value
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
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

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.

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.

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

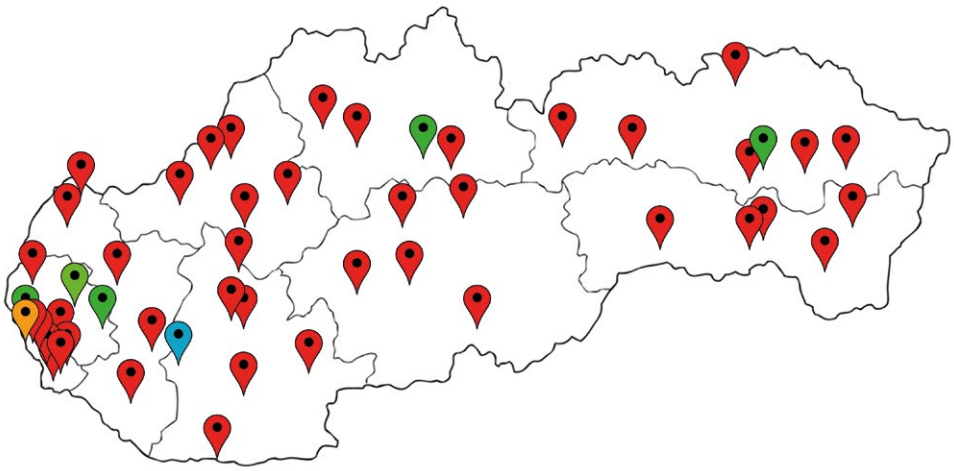
No events with a material impact and that would require adjustment or disclosure in the Financial Statements as at 31 December 2017 occurred after the date of preparation of the Financial Statements.

10. Branch network

No.	Branch	Address	Postal Code
1	BA – Dlhé diely	Ľ. Fullu 3	841 05
2	BA – River Park*	Dvořákovo nábrežie 4	811 02
3	BA – Twin City	Mlynské nivy 14	821 09
4	BA – Karlova Ves	Karloveská 34	842 64
5	BA – Odborárske nám.	Odborárske nám. 2	811 07
6	BA – Nám. SNP	Nám. SNP 35	811 01
7	BA – Rača	Čachtická 25	831 06
8	BA – Saratov	Saratovská 9	841 02
9	BA – Tomášikova	Tomášikova 21	821 01
10	BA – Vlast. nám.	Vlastenecké námestie č. 4	851 01
11	Bánovce nad Bebravou	Námestie Ľudovíta Štúra 8/8B	957 01
12	Banská Bystrica	Dolná 62	974 01
13	Bardejov	Hviezdoslavova 3	085 01
14	Brezno	Námestie M. R. Štefánika 7	977 01
15	Dubnica nad Váhom	Nám. Matice slovenskej 12/1298	018 41
16	Dunajská Streda	Bacsákova ul.	929 01
17	Galanta	Sídlisko Jas č. 5 (OC JASPARK)	924 01
18	Humenné	Nám. slobody 3	066 01
19	Komárno	Mederčská 4987/4	945 01
20	Košice 1	Toryská 3	040 11
21	Košice 2	Štúrova 1 (OD Dargov)	040 01
22	Levice	P. O. Hviezdoslava 2/A	934 01
23	Liptovský Mikuláš	Ulica 1. mája 41	031 01
24	Lučenec	T. G. Masaryka 19	984 01
25	Malacky	Zámocká 8	901 01
26	Martin	Andreja Kmeťa 5397/23	036 01
27	Michalovce	Ul. kpt. Nálepku 26	071 01
28	Nitra 1	Štefánikova trieda 65	949 01
29	Nitra 2	Sládkovičova 1	949 01
30	Nové Mesto nad Váhom	Hviezdoslavova 19	915 01
31	Nové Zámky	Komárňanská 2	940 02
32	Pezinok	Moyzesova 4/B	902 01
33	Poprad	Vajanského 71	058 01
34	Prešov	Hlavná 54	080 01

No.	Branch	Address	Postal Code
35	Prešov 2	Arm. generála Svobodu 25	080 01
36	Prievidza	Bojnická cesta 15	971 01
37	Ružomberok	Podhora 55	034 01
38	Rožňava	Janka Kráľa 4	048 01
39	Senec	Lichnerova 44	903 01
40	Senica	Námestie oslobodenia 9/21	905 01
41	Skalica	Potočná 20	909 01
42	Spišská Nová Ves	Letná 51	052 01
43	Šaľa	Nám. sv. Juraja 2244	927 01
44	Topoľčany	Námestie M. R. Štefánika 21	955 01
45	Trebišov	M. R. Štefánika 52	075 01
46	Trenčín	Nám. sv. Anny 23	911 01
47	Trnava	Hlavná ulica 33	917 01
48	Vranov nad Topľou	Námestie slobody 5	093 01
49	Zvolen	T. G. Masaryka 955/8	960 01
50	Žiar nad Hronom	Nám. Matice slovenskej 2820/24	965 01
51	Žilina	Na priekope 19	012 03

* Business place for VIP clients



Operating branches Branches opened in 2017 Branches planned to be opened in 2018

2017		2018	
New branches	Senec Ružomberok Prešov Eperia BA – Saratov	**New branches**	Šaľa – otvorená Piešťany
Relocations	BA – Twin City Pezinok	**Relocations**	River Park
Renovations	Spišská Nová Ves		
Closure	BA – Skybox		

poštová
banka