

Slovenská sporiteľňa, a.s., Member of Erste Group  
**Annual Report 2017**





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# The Company at a Glance

## Basic data

Registered office: Tomášikova 48, 832 37 Bratislava, Slovak Republic  
Registered: Commercial Register administered by District Court Bratislava I, section: Sa, entry: 601/B  
Corp. ID (IČO): 00151653  
Legal form: joint-stock company  
Line of business: universal bank

## Profile

Slovenská sporiteľňa was established in 1825 as the first savings bank in Slovakia. Today, the company is the largest commercial bank in Slovakia servicing more than 2.2 million clients. For a long time it has held a leading position in total assets, retail loans, clients' deposits, number of branches and ATMs. The Bank offers its comprehensive services at more than 270 sales points for retail clients and 8 regional commercial centres in Slovakia.

In 2001, Slovenská sporiteľňa became a member of Erste Group, which was Austria's first savings bank, founded in 1819. Since 1997, the Group has developed into one of the largest financial services providers in Central Europe. It currently has 47,300 employees serving approximately 16 million clients in more than 2,600 branches in seven central and eastern European countries (Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia).

## Shareholder structure of Slovenská sporiteľňa as at 31.12.2017

Erste Group Bank AG  
Registered office: Am Belvedere 1, Vienna 1100, Austria  
Share in the registered capital and voting rights: 100.00 %

## Significant direct and indirect holdings

|                                                   |         |
|---------------------------------------------------|---------|
| • Služby SLSP, s.r.o.                             | 100.00% |
| • Realitná spoločnosť Slovenskej sporiteľne, a.s. | 100.00% |
| • LANED, a.s.                                     | 100.00% |
| • Procurement Services SK, s. r.o.                | 51.00%  |
| • Slovak Banking Credit Bureau, s. r.o.           | 33.33%  |
| • Holding Card Service, s.r.o., Czech Republic    | 30.99%  |
| • Prvá stavebná sporiteľňa, a.s.*                 | 9.98 %  |

## Ratings

### Fitch Ratings

|                   |               |
|-------------------|---------------|
| Long-term rating  | <b>A-</b>     |
| Short-term rating | <b>F1</b>     |
| Viability rating  | <b>bbb+</b>   |
| Support rating    | <b>1</b>      |
| Outlook           | <b>stable</b> |

This annual report has been prepared in accordance with Act no. 431/2002 Coll. on accounting (the "Accounting Act") as amended, Act no. 423/2015 Coll. on statutory audit as amended, and Act no. 566/2001 Coll. on securities and investment services and on the amendment of certain laws as amended (the "Securities Act") because Slovenská sporiteľňa is a securities dealer. This Annual Report substitutes the annual financial report as defined in Act no. 429/2002 Coll. on the stock exchange as later amended (the "Stock Exchange Act") as Slovenská sporiteľňa is an issuer of debt securities admitted to trading on a regulated market. Information included in the section "Annexes" contains all information required under § 77(2)(b) of the Securities Act while the list of companies consolidated in the financial statements in accordance with § 77(2)(b)(1) is included in chapter Summary Corporate Governance Report. Information required under § 77(2)(b)(3) is included in Note 25 of financial statements; information required under § 77(2)(i) and § 77(2)(j) are part of consolidated statement of profit and loss which is part of the section "Annexes". This Annual Report includes a statement in accordance with § 34(2)(c) of the Stock Exchange Act and the internet address at which is published the annual report of the Bank's parent company Erste Group Bank AG for 2017 as required by § 34(3) of the Stock Exchange Act. This Annual Report also includes, in the section "Annexes" (Note 28 of Consolidated financial statements), a proposal for distribution of the profit in accordance with § 20(1)(f) of Accounting Act and in accordance with § 77(2)(c) of the Securities Act.

## Method of publication of the annual report

Slovenská sporiteľňa files its annual report, including its individual and consolidated financial statements and the auditor's report, in the register of financial statements in accordance with the provisions of Act no. 431/2002 Coll. on accounting, as amended. It publishes the document on its website and a notice of publication is placed in the Hospodárske noviny newspaper.

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<https://www.erstegroup.com/en/investors/reports/financial-reports>

\* According to shareholder agreement with Erste Group Bank AG, Slovenská sporiteľňa has 35.00% share on voting rights in Prvá stavebná sporiteľňa, a. s. Ownership interests and shares on voting rights are identical in case of other holdings.

# Financial Highlights

| Consolidated results                                                        | 31 Dec 2013   | 31 Dec 2014   | 31 Dec 2015   | 31 Dec 2016   | 31 Dec 2017   |
|-----------------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Prepared in accordance with the International Financial Reporting Standards | (mil. eur)    | (mil. eur)    | (mil. eur)    | (mil. eur)    | (mil. eur)    |
| Balance sheet total                                                         | 11,699        | 12,969        | 13,980        | 14,825        | 16,343        |
| Loans and advances to credit institutions                                   | 80            | 179           | 122           | 90            | 178           |
| Loans and advances to customers (net)                                       | 7,161         | 8,086         | 9,365         | 10,250        | 11,720        |
| Investments                                                                 | 3,731         | 3,953         | 3,836         | 3,793         | 3,745         |
| Customer deposits                                                           | 9,091         | 9,666         | 10,672        | 11,384        | 12,478        |
| Equity                                                                      | 1,291         | 1,311         | 1,539         | 1,562         | 1,536         |
| Net profit                                                                  | 185           | 183           | 186           | 215           | 164           |
| <b>Selected ratios</b>                                                      | <b>(IN %)</b> | <b>(IN %)</b> | <b>(IN %)</b> | <b>(IN %)</b> | <b>(IN %)</b> |
| Return on equity                                                            | 15.1          | 14.5          | 13.8          | 14.0          | 10.8          |
| Return on assets                                                            | 1.6           | 1.5           | 1.4           | 1.5           | 1.1           |
| Cost income ratio                                                           | 42.8          | 44.5          | 44.3          | 46.1          | 49.7          |
| Net interest margin                                                         | 4.2           | 4.0           | 3.7           | 3.4           | 3.0           |
| Loans to deposits ratio                                                     | 82.6          | 83.6          | 87.8          | 90.0          | 93.9          |
| Total capital adequacy                                                      | 25.2          | 19.9          | 21.9          | 21.5          | 18.7          |
| Tier 1 capital ratio                                                        | 20.8          | 17.7          | 20.3          | 20.3          | 17.8          |
| <b>Other figures</b>                                                        |               |               |               |               |               |
| Number of employees                                                         | 4,208         | 4,275         | 4,205         | 4,232         | 4,250         |
| Number of branches                                                          | 292           | 292           | 291           | 287           | 271           |
| Number of ATMs                                                              | 770           | 779           | 790           | 795           | 805           |

# Statement by the Chairman of the Board and CEO



## Dear shareholders, clients and partners,

I am pleased to say that 2017 was another year of favourable results for Slovenská sporiteľňa. We succeeded in increasing our market share in both deposits and loans, reducing the level of non-performing loans and implementing new and useful services for our clients while maintaining cost-effectiveness. Although profits were not as high as in the previous year, this was to be expected, due to the results of 2016 having been affected by one-off revenues from the sale of VISA shares and the transfer of a payment terminals network to a new company, Global Payments, of which we are a co-owner. Another no less important factor, affecting the profitability of the entire banking sector, was the persistence of low interest rates, whose impact was multiplied by intense competition driving down credit margins.

In retail banking, we confirmed our leadership in the provision of services to households and we increased our market share in both loans and deposits. I am especially pleased by the growth of our share in housing loans, where the competition was most intense. The key to our success has been offering comprehensive services related to housing finance. The main growth area in deposits was savings accounts, through which we are trying to teach Slovaks to save and build up reserves. Last year, our clients' saving accounts grew by approximately €400 million.

We performed well also in corporate banking. While improving market share in corporate deposits, we managed to increase the market share in corporate loans by more than one percentage point. In addition, we improved market shares in both public sector loans and deposits.

As our loan portfolio grew, it is important that its quality did not suffer. In fact, the rate of non-performing loans has reached its lowest level in history. The favourable economic situation contributed to this. The Slovak economy maintained a solid growth rate of more than 3% last year, accompanied by a significant fall in unemployment in Slovakia. More people with regular and rising incomes, as well as businesses willing to invest and expand capacity, are a good basis not just for the economy, but also for the banking sector.

Digital technology was another major theme of the past year at Slovenská sporiteľňa. Since January, all our corporate clients now use Business24, an electronic banking service tailored specifically to needs of entrepreneurs. We have equipped the entire retail branch network with tablets, which greatly simplify customer service and have improved customer experience of our clients. Our largest project, however, was clearly George – our new smart banking service, which is being rolled out across the Erste Group.

We introduced it to a first wave of clients at the end of the year and over the next few months it should completely replace the previous online banking service. I am very pleased that it offers our clients a banking experience with the convenience familiar to them from social networks. George offers many innovative features. It is a platform that will enable us to rise to the challenges created by the PSD2 directive, which will soon link the worlds of banking and fintechs.

There have been many smaller projects as well as these “large” ones, but we worked on them all with the same enthusiasm. Nor have we forgotten that, as a large firm, we have obligations to the society in which we operate. We have implemented many corporate social responsibility projects both through the Slovenská sporiteľňa Foundation and via the Bank itself. One activity that stood out for me was the social banking programme Step by Step, which is aimed at groups that have not traditionally had good access to bank financing. Another example from last year was our participation in a microloan programme, helping poor people from segregated communities to learn how to save and build their own homes.

In 2018, we aim to expand our digital services so that individuals and firms can get and use our services as they prefer without necessity to visit a branch, and so that our services are more user-friendly and easier to understand. Alongside digitalisation, we will continue upgrading our branch network. We want our clients to have a positive experience whenever and however they contact the bank. At the same time, there is a clear need to focus on cost-effectiveness and process optimisation in this time of low interest rates.

I wish Slovenská sporiteľňa, its clients and all its business partners much success in 2018 and the years to come. After many years in the Bank's management, I have decided that it is time to spend more time with my family and hobbies and to entrust the Bank to a younger pair of hands. Peter Krutil, who is taking over the leadership, has been my colleague for nearly my entire career with Slovenská sporiteľňa and I am confident that he is not just a guarantee of continuity but will also successfully lead the Bank through the challenges facing the financial sector.



**Štefan Máj**  
**Chairman of the Board and CEO (to 31 December 2017)**





# **Top Management Board of Directors of Slovenská sporiteľňa, a.s.**











## ŠTEFAN MÁJ

### Chairman of the Board and CEO

Štefan Máj is a graduate of the Management Faculty at the University of Economics in Bratislava. From 1991 to 1995 he worked for Slovenská sporiteľňa, first as the head of the Property Management Unit, then as general director of the Technology Division, and later as a board member. In 1995, he joined Komerční banka Bratislava, serving as a member of the Board of Directors and Deputy CEO until December 1998, when he returned to Slovenská sporiteľňa to become Deputy CEO. Mr Máj was a member of the Slovak Finance Ministry's steering group for the restructuring and privatisation of selected banks and restructuring of the financial sector.

Mr Máj was Deputy Chairman of the Board of Directors and First Deputy CEO of Slovenská sporiteľňa until the end of 2014. With effect from 1 January 2015, he was elected Chairman of the Board of Directors and CEO of Slovenská sporiteľňa. He is responsible for accounting, controlling, balance sheet management, facilities, environment and construction, and, in the framework of staff units, for strategy & client experience, human relations, communication and sponsoring, and for the SLSP Foundation.

## **PETER KRUTIL**

### **Deputy Chairman of the Board and First Deputy CEO**

Peter Krutil is a graduate of the Management Faculty at the University of Economics in Bratislava. He served internships at Creditanstalt Vienna and Creditanstalt London. From 1991 to 1993, he was a securities dealer for VÚB, where he worked on the listing of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka as a dealer in money and capital markets. From 1993 to 1998 he was a managing director and later a member of the Board of Directors at Creditanstalt Securities, o. c. p., a.s., Bratislava. In 1998, Mr Krutil moved to the Slovak Ministry of Economy. In December 1998 he was elected a member of the Board of Directors of Slovenská sporiteľňa. On 1 April 2015 he took up the position of Deputy Chairman of the Board of Directors and Deputy CEO of Slovenská sporiteľňa. He is responsible for the management of corporate banking and capital markets.









## **ALEXANDRA HABELER-DRABEK**

### **Board Member and Deputy CEO**

Alexandra Habeler-Drabek is a graduate of the Vienna University of Economics and Business. She has more than 23 years' experience in risk management. During her career she has acquired extensive knowledge in the areas of underwriting and collection in the retail and business segments, as well as in comprehensive strategic and methodological risk management.

She came to Erste Bank in 2010 from UniCredit as head of operative risk management, and in 2012 became part of the top management of the Erste Group. She was appointed a member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa on 1 January 2017. She is responsible for risk management, legal services, security, compliance and financial fraud.







## **ZDENĚK ROMÁNEK**

### **Board Member and Deputy CEO**

Zdeněk Románek is a graduate of Charles University and the University of Economics in Prague. He got an MBA degree in France at INSEAD Fontainebleau University.

He began his professional career in 1999 in the consulting company KPMG in Prague. After a year at the Czech Revitalisation Agency, in 2001 he started consulting for McKinsey & Company in several European countries. In 2007 he moved to Česká pojišťovna, a part of the PFF Holding, where he was responsible for sales, distribution and product management. In 2013 he took charge of retail banking in Air Bank in the Czech Republic.

He has been a member of the Board of Directors of Slovenská sporiteľňa since 15 June 2015, when he was elected member of the Board of Directors and Deputy CEO. He is responsible for retail banking, bank insurance, the social bank project and private banking.







## **RICHARD CHOMIST**

### **Board Member and Deputy CEO**

Richard Chomist holds a PhD degree in telecommunications from the Slovak University of Technology in Bratislava. For twelve years after graduation he worked in air traffic management in civil aviation, where he held various senior positions in the areas of communication networks and AIS systems. During this time period he participated in numerous international internships and courses in the UK and Luxembourg. In 2010, he joined the management of Erste Group IT SK, which was the main supplier of IT services for Slovenská sporiteľňa. In 2012 he became the Head of its IT & Operations Division, responsible for the company's infrastructure and operations. He was elected member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa on 1 April 2015. He is responsible for IT, change management, project management, security, the retail processes centre and payments & settlement.





### **Changes in the Board of Directors after 31 December 2017**

As at 31 December 2017, Štefan Máj resigned from the positions of Board Member, Chairman of the Board of Directors and CEO due to retirement. The Supervisory Board of Slovenská sporiteľňa elected Peter Krutil to take over the position of Chairman of the Board of Directors and CEO with effect from 1 January 2018. In addition to his responsibility for management of corporate banking and capital markets, he will take over full responsibility for staff units.

With effect from 26 January 2018, following prior approval by the European Central Bank, Pavel Cetkovský was elected member of the Board of Directors and he became Deputy CEO.

Pavel Cetkovský has a master's degree from the Brno University of Technology and a bachelor's degree from the Institute for Economics and Management in Kiev, Ukraine.

In 1994, he began his professional career at Česká spořitelna, where he held several managerial positions in risk management and asset and liability management. He worked in Erstebank Kiev in Ukraine as a member of the Board of Directors and later its Chairman from 2007 to 2013. His areas of competence and responsibility included risk management, information technology and operations and staff units. He joined Erste Group Bank AG in Vienna in 2013 with responsibility for liquidity management throughout the Erste group, managing bank book interest rate risk and managing the banking group's investment portfolio.

He is responsible for accounting, controlling, facilities, environment and construction and balance sheet management.





# Supervisory Board of Slovenská sporiteľňa a.s.

**MGERNOT MITTENDORFER**  
**Chairman**

Gernot Mittendorfer studied law at the University of Linz and has an MBA with specialisation in finance from Webster University in Vienna. He began his career with Erste Group in 1990. He has held various management positions in Erste group companies in Austria and the Czech Republic. He was appointed a member of the Board of Directors of Erste Group Bank AG in January 2011. His first responsibility was investment banking and large corporations followed later by risk management, compliance, security and law. He has been responsible for finance since 2013.

He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2012. He was re-elected for a further term of office in 2017.

**JAN HOMAN**  
**Deputy Chairman**

Jan Homan graduated in economics at the Vienna University of Economics and Business. He gained banking experience in Frankfurt, New York and Dusseldorf for Chase Manhattan Bank, which he joined in 1972, and later in Bank Société Générale Alsacienne in Vienna. Since 1978 he has held management positions in the international engineering and chemical corporations Sandvik Austria and Sun Chemical in Vienna. Since 1991 he has been the CEO of Constantia Teich Group and since 2004 the Chairman of the Board of Directors of Constantia Flexibles Group. In 2011 he was elected a member of the Supervisory Board of Constantia Flexibles.

He is currently a member of a number of supervisory boards including deputy chairman of the Supervisory Board of Erste Bank der österreichischen Sparkassen. He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2012. He was re-elected for a further term of office in 2017.

**LUDOVÍT ÓDOR**  
**Member**

Ludovít Ódor is a graduate of the Comenius University in Bratislava, in the field of mathematics–management. During his career he has worked as a financial markets analyst in CSOB, an economist at the Slovak Rating Agency, and chief economist at the Ministry of Finance and director of the Institute for Financial Policy. From 2005 to 2010 he was a member of the Bank Board of the National Bank of Slovakia and then until 2012 an adviser to the Prime Minister and Minister of Finance of the Slovak Republic.

Since 2012 he has been a member of the Council for Budget Responsibility. He has been a member of the Supervisory Board of Slovenská sporiteľňa since 1 January 2017. He was elected as an independent member.

**TATIANA KNOŠKOVÁ**  
**Member**

Tatiana Knošková received her education in law at Comenius University in Bratislava and the Faculty of Law at the University of Groningen in the Netherlands. She has completed courses in commercial, tax and private law at law schools in the USA and passed the tests on Czech Accounting Standards organised by the Association of Chartered Certified Accountants (ACCA) in the Czech Republic.

She has worked in various expert teams specialising in providing of financial, tax, accounting and legal services for financial institutions in international audit and consulting firms. She is a member of the Slovak Bar Association. She is currently a partner at WALLENBERG LEGAL.

She has been a member of the Audit Committee of the Supervisory Board of Slovenská sporiteľňa since 2007 in the position of an independent member without the Supervisory Board membership. On 25 May 2017, she was elected a full, independent member of the Supervisory Board of Slovenská sporiteľňa.

**Supervisory Board members elected by employees**

**BEATRICA MELICHÁROVÁ**  
**Member**

Beatrica Melichárová graduated from the Faculty of Law of Comenius University in Bratislava. She joined Slovenská sporiteľňa immediately after graduation in 1981. Since 1987 she has held a number of management positions within the Bratislava branch. In 2002, she took a full-time role leading the trade union organisation of Slovenská sporiteľňa. She is a member of the European Works Council of Erste Bank and a member of its Board; Deputy Chairman of the Trade Union of Finance and Insurance Workers and an active member of the Slovak Trade Union Confederation committees. Employees first elected her a member of the Supervisory Board of Slovenská sporiteľňa in 2003. She was then repeatedly re-elected, most recently on 9 December 2013.

**ALENA ADAMCOVÁ**  
**Member**

Alena Adamcová holds a master's degree from the Faculty of Arts of Constantine the Philosopher University in Nitra. She has worked at Slovenská sporiteľňa since 1985 in various positions in the branch network, and since 1996 in managerial positions. She currently works as a specialist for entrepreneurs. She is a member of the Erste Bank European Works Council and deputy chairman of the Trade Union Committee in Slovenská sporiteľňa. She was elected a member of the Supervisory Board of Slovenská sporiteľňa with effect from 2 November 2016.

# Slovak Economy in 2017



- **The Slovak economy continued its solid growth last year**
- **Growth was mainly driven by domestic demand that benefited from the continuing labour market recovery**
- **The unemployment rate fell to a new low**
- **Inflation returned after a three-year break**
- **Euro Area growth gathered pace**
- **The European Central Bank halved and extended its asset purchase programme**
- **Consolidation of public finances continued in 2017**
- **The outlook for 2018 is positive**

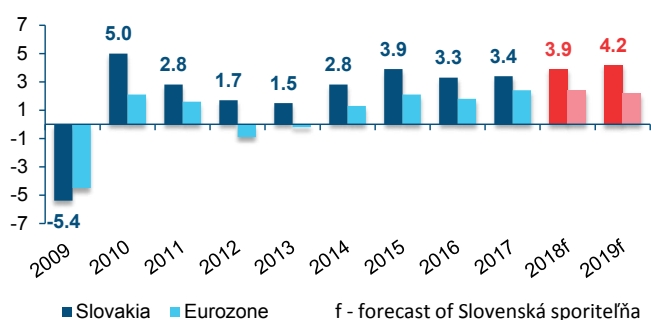
## Domestic demand remained the driving force of economic growth

The Slovak economy performed well on several fronts in 2017. Economic growth continued at a steady pace of 3.4% on average. The main driver of growth was domestic demand, especially household consumption, which grew at its fastest rate since the crisis in 2009. Investment also picked up speed in the second half of 2017, mainly thanks to investments in the automotive sector. Given the high import-intensity of investment, coupled with greater demand from households, imports grew faster than exports. Consequently, net exports contributed little to economic growth in 2017.

## The labour market continued its dynamic recovery

Alongside good economic growth, labour market recovery continued. The unemployment rate fell to a record low of 8.1%, mainly thanks to registered jobseekers entering employment. Employment growth was visible across several sectors and, together with higher real wages, was reflected not just in consumption but also in people's savings. The favourable growth in employment and household disposable income is expected to continue in 2018. Several employers have already begun to feel a shortage of qualified workers, and the tightening of the labour market will probably further increase the pressure on nominal wage growth.

### GDP growth in Slovakia and Eurozone (%)



## Inflation is back on stage

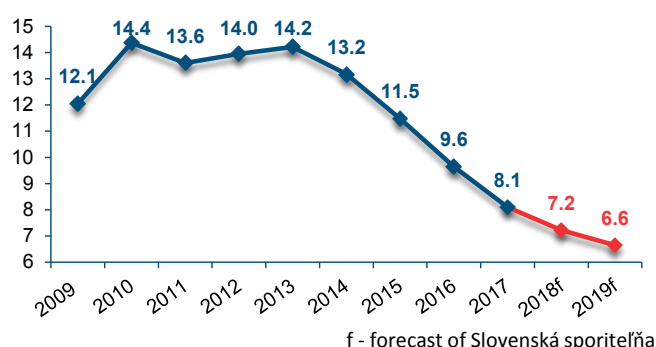
Inflation is back after a three-year break, although its pressures fluctuated over the year. From January to December 2017 consumer prices increased on average by 1.3%. This was driven mainly by food and service prices. Food prices reflected both disappearance of the VAT cut effect seen in 2016 and rising prices of food commodities on global markets. Service prices were pushed up by the improving situation on the labour market and higher disposable income of households.

## Eurozone growth accelerated

The Slovak economy also benefited from the recovery in the Euro Area. The block's growth accelerated to 2.3% in 2017, on the back of domestic and foreign demand. The main engine of the Eurozone economy, Germany, recorded growth of 2.2% in 2017 - the fastest rate since 2011. Countries on the bloc's periphery also did well, with improvements in Italy, Greece and Portugal. Despite the political crisis in Catalonia, Spain maintained a solid pace of growth.

The Euro Area unemployment rate continued to fall in 2017 and ended the year at 8.7%. The block's unemployment rate is gradually getting back to its pre-crisis level. Nevertheless, there are still large differences in unemployment between member states, with Greece, Spain, Cyprus and Italy still reporting double-digit unemployment rates.

### Unemployment rate in Slovakia (%)



## The European Central Bank halved and extended its asset purchase programme

The European Central Bank (ECB) kept interest rates at their record lows throughout 2017 and continued its quantitative easing (QE) programme intended to push up inflation towards its target value of close, but below 2%. The record low interest rates have been in effect since March 2016: the main refinancing rate is 0% and the one-day deposit rate is negative, at -0.4%. The Eurozone economy has improved, as can be seen in revived GDP and employment growth, but it is still not reaching its potential in the unemployment rate and lukewarm inflationary pressures. Higher inflation depends significantly on the ECB's loose monetary policy. In October, the ECB announced a change in the arrangements for QE. In January 2018, it reduced the monthly volume of asset purchases from €60 billion to €30 billion. The programme will continue at the lower volumes at least until the end of September 2018. The main rates should stay at their current levels for a while and well past the horizon of net asset purchases. We therefore expect the key ECB interest rate to remain at zero throughout 2018. Yields on Slovak government bonds remained at historically low levels. The return of inflation and the ECB's somewhat more hawkish view of the future could lead to a steeper yield curve.

According to Eurostat, Slovakia's 2016 fiscal deficit stood at 2.2% of GDP, down from 2.7% in 2015. The Ministry of Finance expects the 2017 budget deficit to be around 1.3% of GDP, before decreasing further to 0.8% of GDP in 2018. Lower deficits and thus reduced need for government financing should dampen increases of Slovak government bond yields.

## Positive outlook for 2018

Economic growth could accelerate to 3.9% in 2018. Domestic demand should remain the key growth driver, as household consumption benefits from the good labour market and consumer sentiment. Investment should also help growth, amidst good economic environment, gradual pick-up in EU funds absorption and private sector investments. After a dip in 2017, net foreign trade should begin contributing to economic growth again as demand strengthens among our European partners. Production is expected to start in the new Jaguar Land Rover car plant near Nitra towards the end of 2018, which should give an extra boost to exports later on. We expect the creation of new jobs to continue to lower the unemployment rate in 2018. Risks to economic growth are mild and almost balanced; for example possibility of unexpected geopolitical development or a sudden slowdown in global growth.





# Management report on Bank's activities in 2017

Based on the consolidated financial  
statements

## REVIEW OF FINANCIAL RESULTS

- **Slovenská sporiteľňa achieved a consolidated net profit of €163.9 million in 2017, representing a decrease of almost €51 million against 2016**
- **The fall in net profit against a year earlier was influenced primarily by two one-off transactions made in 2016, namely the sale of shares of the company Visa Europe (€26.8 million) and the establishment of a joint venture with Global Payments (€14.5 million) in the field of payment terminals. In addition to these two extraordinary effects, there was also a fall in net interest income, while fee and commission income also declined**
- **The balance sheet total grew over the year by 10.3% to €16.3 billion, primarily due to growth in the volume of loans to customers**
- **Lending to customers rose in 2017 by 14.3%, to reach €11.7 billion, whilst the volume of customers' deposits rose by 9.6% to almost €12.5 billion**
- **The loan-to-deposit ratio at 93.9 % confirms the bank's stable position in liquidity and financing, and creates the potential for continued growth in the coming period**
- **The cost-to-income ratio deteriorated slightly from 46.1% in 2016 to 49.7% in 2017, due in particular to declining operating income and a slight growth in operating costs**
- **Operating income, comprised primarily of net interest income, fee and commission income, as well as trading income, fell by €31.1 million against a year earlier to reach €568.8 million.**
- **Net interest income fell by 4.8% from €461.6 million in 2016 to €439.3 million in 2017. This decline is a consequence of the persistently low market interest rates, stricter regulation and strong competitive pressure on margins for both new and refinanced loans**
- **Net fee and commission income fell by €9 million to €112.7 million. This decrease was due to several factors, the largest being the divestment of payment terminals to the company Global Payments, and legislative changes regarding the early repayment of loans**
- **General operating expenses rose over the year by 2.1%, due primarily to increased personnel expenses and other staff-related costs. On the other hand, depreciation costs declined slightly against a year earlier**
- **Results for other operating items deteriorated slightly over the year because the result for 2016 was affected positively by the two one-off transactions, namely proceeds from the sale of the stake in the company Visa Europe, totalling €26.8 million, and the sale of payment terminals to the newly established company Global Payments, in the amount of €14.5 million.**
- **The year-on-year decrease in actual risk costs (impairment on loans and receivables and allocation/release of provisions) of more than €10 million, was the result of favourable risk profile developments seen in all customer segments**

### Continued credit and deposit growth in the face of strong competition and tighter regulation

Total assets of Slovenská sporiteľňa rose to €16.3 billion as of the end of 2017, representing a 10.3% growth (+€1.5 billion) against a year earlier, and a 21.5% market share (based on individual results). The share of loans in total assets in 2017 was 72% (up from 69% in 2016). Lending to banks rose over the year by €88 million to €178 million. The volume

of loans to customers as at the end of 2017 reached €11.7 billion, representing an increase of 14.3% (+€1.5 billion) against 2016. This growth reflects the ongoing trend of strong customer business growth supported by activities focused on satisfying customer needs and creating a positive client experience. Slovenská sporiteľňa's market share reached 27.7%, confirming the bank's long-term leading position of market leader in retail lending. Retail lending (according to Erste Group segment reporting) contributed significantly to this figure, growing by 12.7% over the year (+€1,037 million). The most significant source of growth was housing loans, which grew by 13.6% (increase of nominal volumes by €828 million), as well as consumer loans, which grew by 9.4% (increase of nominal volumes by +€145 million). The volume of loans to clients of corporate segment, including public sector clients, increased year-on-year by €391 million, to reach €2.8 billion.

The securities portfolio as at the end of 2017 totalled €3.7 billion, representing a year-on-year fall of €39 million. Securities held to maturity made up approximately 72% of the total portfolio as at the end of 2017. The bulk of all investments during 2017 comprised purchases of government bonds of Slovakia, Slovenia and Poland. The credit risk of the overall securities portfolio is low since approximately 93% of bonds are government bonds, and 93% of the portfolio comprised ECB eligible bonds.

The year-on-year decrease in intangible assets to €55 million is connected primarily with the depreciation of the bank information system and software. The decrease in the volume of tangible assets was connected mainly with the gradual depreciation and revaluation or sale of some tangible assets.

Total customer deposits increased by 9.6% against a year earlier (+€1.1 billion) to €12.5 billion. Slovenská sporiteľňa achieved a market share of 27.6%, confirming its strong position in the retail deposits market. Main driver of increase of total volume of clients deposits was increase of retail deposits (according to segment reporting), where the bank recorded growth of 6.6% (increase of nominal amount of retail deposits by +€635 million). This growth was attributable largely to increased volumes on current and giro accounts, as well as saving accounts. Conversely, the bank recorded a decline in standard term deposits. Over the course of 2017, deposits from segment of corporate clients and public sector clients grew by €439 million to almost €2.2 billion, of which the deposit from the Agency for Debt and Liquidity Management (ARDAL) totalled €350 million. The net loan-to-deposit ratio as at the end of 2017 was 93.9% (compared to 90.0% in 2016). The bank's liquidity and funding position is stable and supports further growth in lending to customers.

Compared to 2016, Slovenská sporiteľňa recorded a €210 million increase in deposits from banks, which reached €489 million; this comprised mainly financing from Erste Group, in consequence of the dynamic growth in lending. Over the past year, the bank issued debt securities for institutional and retail customers in a total value of almost €420 million, the bulk of which comprised mortgage bond issues. The bank's equity remained almost unchanged over the year, at approximately €1.5 billion. In the field of capital indicators, the bank fulfils all limits set by the regulator, with sufficient reserve.

### Fall in net interest margin partially compensated by volume growth

Slovenská sporiteľňa's net interest income decreased by €22.3 million (-4.8%) against 2016 to €439.3 million. This decline is the result of the long-term development of low interest rates on the market

\* Figures differ from those shown in the Financial statements due to different segmentation.

and strong competitive pressure on the interest margin on new and refinanced loans. Moreover, market development was significantly impacted by legislative changes and tightened rules for new lending. The fall in interest income resulted in part also from the impact of the repayment of several bonds with higher interest income in the first half of 2017, which could not be replaced under equal or similar market conditions. Despite several activities focused on satisfying customer needs, growing volume of loans and change to the structure and interest rates of deposit products, it was not possible to fully offset the above-mentioned negative impacts on net interest income.

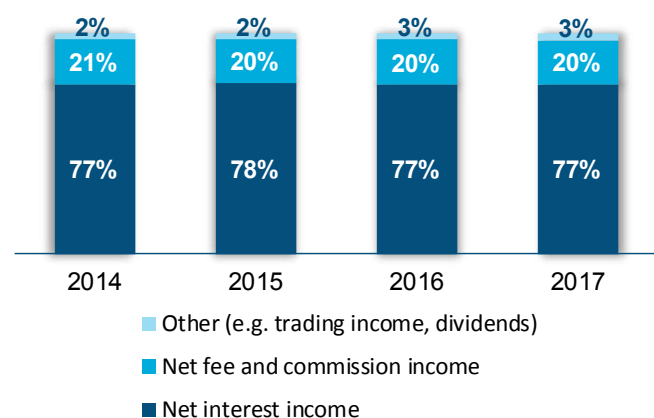
Total interest income fell by €38.5 million against 2016 to €472 million. This fall was due mainly to lower interest income from loans, which fell by €24.3 million against a year earlier to €370.7 million. It was not possible to fully offset the fall in interest income from loans by the fast growth in lending. Interest income from securities fell by almost €14 million against a year earlier to €110 million. Interest income from derivatives increased slightly by €0.6 million to €9.1 million.

The fall in interest expenses on the liabilities side, by more than €16 million against a year earlier was largely attributable to the fall in interest rates on term deposits and savings accounts, whilst the change in the structure of deposits in favour of current and giro accounts also played a role. Total interest expenses in 2017 represented almost €33 million.

The share of net interest income on the bank's total operating income remained unchanged against the past year at 77%. The net interest margin decreased compared to 2016 by 43 basis points to 3.0%, after falling by 31 basis points in 2016. The continuing decrease in interest margins was caused primarily by the fall in market interest rates, intense competition between banks for clients primarily in the field of loans, as well as certain higher interest rate securities maturing.

The bank invested excess liquidity mostly in short-term interbank assets within the Erste Group, and also in Slovak government bonds and the government bonds of other central and eastern European countries, particularly Slovenia and Poland. A transparent and responsible pricing policy, growing loan and deposit volumes, and efficient liquidity management create favourable conditions for developments in net interest income in the near term.

#### Income structure



## Trading income rose, fee and commission income fell

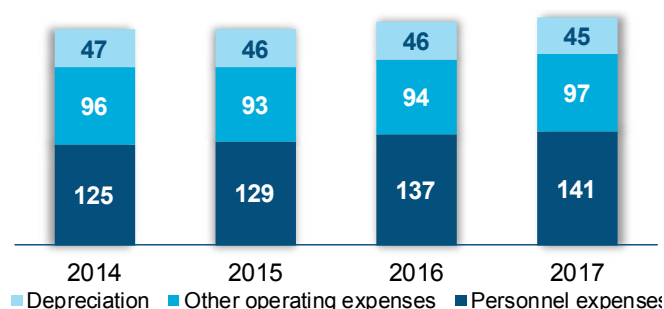
Net fee and commission income decreased over the year to €112.7 million (compared to €121.7 million in 2016). The main factors influencing the development of fees in 2017 include, in particular, the sale of payment terminals to the company Global Payments in 2016, legislative changes regarding early repayment of loans (the application of a fee up to the level of costs, at most 1% of the loan principal) and the „Výhodný súčet“ (a loyalty scheme for customers including a discount off the account management fee), where the fall in fees for these reasons totalled approximately €11.5 million. A further factor was the change in the level of fees for past due payment reminders, resulting in a €3 million decline over the year. On the other hand, fees for insurance commission had a positive effect, growing by €3.4 million over the year. Fees from Asset Management Slovenskej sporiteľne also recorded a growth (+€1.2 million). The bank also recorded an increase in transaction fees, which rose by €2.3 million, thanks in particular to the change in the level of fees for cash deposits. The share of net fee and commission income on the bank's total operating income remained unchanged over the year at 20%.

Net income from trading and from revaluation of financial assets and liabilities at fair value increased slightly over the year by €0.7 million to reach €13.3 million. The main reason for this growth in income was the positive revaluation of derivatives in hedge accounting, up €0.5 million against a year earlier, and a decrease in the loss from the revaluation of financial assets and liabilities at fair value against 2016, by €0.4 million. Conversely, income from trading, including exchange rate differences, fell by €0.4 million against a year earlier to €13.5 million.

## Operating expenses rose slightly

General operating expenses rose by 2.1% to €282.7 million, from the level of €276.7 million in 2016. The growth in operating expenses reflected the bank's activities focused on improving the quality of services for clients, as well as growth in personnel expenses. On the other hand, depreciation costs fell slightly.

#### General operating expenses



## Other operating result deteriorated

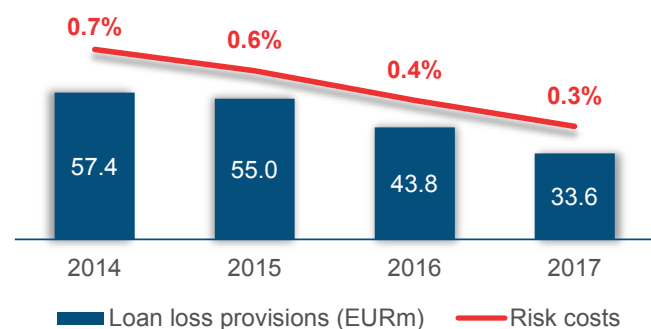
In 2017 there was deterioration in other operating items, which had been positively affected by two one-off transactions in 2016. The first transaction represented the sale of a stake in the company Visa Europe, with a positive impact of €26.8 million. The bank devoted part of this extraordinary income, €2.7 million, to the Slovenská sporiteľňa Foundation to support charitable projects. The second extraordinary transaction concerned the sale of POS terminals to the newly established company Global Payments, s. r. o., yielding €14.5 million.

The bank's total levy liability decreased very slightly against 2016, by €0.6 million, thanks mainly to a lower levy to the Deposit Protection Fund. This levy fell by €1.7 million to €0.8 million. The levy payment to the Single Resolution Fund decreased by €1.2 million to €2.8 million. This was offset by an increase in the bank tax by €2.3 million against a year earlier, while the rate remained unchanged at 0.2 %, to €27.4 million.

## Positive development of actual risk costs

Slovenská sporiteľňa's actual risk costs in 2017 were 0.28% out of gross value of loans to customers, representing a significant decrease against 2016, when the actual risk costs were 0.41%. Despite the 14% growth in the bank's loan portfolio, impairment on loans and receivables and allocation/release of provisions totalled €33.6 million, representing a 23% decrease against 2016. This positive development was attributable equally to the retail segment and corporate segment. The bank's overall risk profile improved thanks to the improvement of several clients' financial situations and the decrease in the share of non-performing loans.

### Allocation/release of provisions and risk costs



## Return on capital reached almost 11%, operating profit fell

The bank's consolidated net profit in 2017 totalled €163.9 million, representing a significant decrease of €50.7 million. The main reasons for the fall were two one-off transactions in 2016 (Visa, payment terminals – Global Payments), together with a year-on-year fall in net interest income and in fee and commission income. The overall effective income tax rate in 2017 was 24.3%, whilst in 2016 this had been 25.0%. The operating result declined against a year earlier by €37.1 million (-11.5%) to €286.1 million. Operating income fell against a year earlier by €31.1 million (-5.2%) to €568.8 million, while operating costs rose by €5.9 million (+2.1%) to €282.7 million.

Return on equity in 2017 reached 10.8% (compared to 14.0% in 2016).

## CUSTOMER CARE AND SERVICE QUALITY

- **Customer feedback helps improve bank processes and products**
- **Slovenská sporiteľňa won several major awards in 2017**
- **The Bank considers the development of the society in which it operates important**

## Positive customer experience is a strategic objective for the bank

Positive customer experience is one of the bank's strategic objectives. Customer satisfaction is therefore one of the main monitoring indicators that the bank regularly measures and evaluates.

The bank also uses targeted surveys to identify changes in customer needs and expectations. The survey results represent the key information how to improve the product portfolio and the bank's procedures to make the customers' life easier and satisfy their financial needs.

Slovenská sporiteľňa devotes individual attention to every customer suggestion and every complaint received. In more complicated situations, customers can turn to a special team of the bank's ombudsman for help. Besides the traditional channels through which the bank receives customers' official complaints, the bank also collects and evaluates spontaneous feedback received via its website or social networks. This helps to identify strengths and weaknesses which are often useful impulse for changes and correction measures.

Customer satisfaction has also become an important part of the individual goals of each bank employee so that the whole bank has an interest in fulfilling this strategic objective (key performance indicators linked to remuneration are defined).

In 2017, thanks to targeted measures aimed at improving customer satisfaction, the bank successfully managed to improve satisfaction, loyalty and recommendation of its customers, which reached their long-term maximum in several segments.

This positive trend was also supported by independent study by the company KPMG, DNA of customer experience. Slovenská sporiteľňa took first place in an evaluation of customer satisfaction among banks, and finished at 14th place among the top 50 evaluated companies in Slovakia across a range of industries.

## A year of prestigious awards

Slovenská sporiteľňa won several major awards in 2017. The British magazine The Banker awarded it the title of Bank of the Year 2017 in Slovakia. It ranked second in Slovakia's own awards – TREND TOP Bank of the Year 2017. Štefan Máj, the Chairman of the Board of Directors and CEO of Slovenská sporiteľňa, was awarded the title of Banker of the Year 2017 by the Trend weekly and its partner, Fincentrum. He also won a Crystal Wing award in the business category for the year 2016. These are the most prestigious awards for work in the banking sector and national economy in Slovakia.

## Not only winning but benefiting others

Slovenská sporiteľňa cares about the society in which it operates. It supports many projects that contribute to public life in every region of Slovakia. For its corporate social responsibility, it was shortlisted in two categories of the Via Bona awards run by the Pontis Foundation – Responsible Large Firm and Social Innovation. For the third consecutive year it won the award for Barrier-Free Bank based on anonymous voting by members of the Slovak Paralympic Committee. No less importantly, Slovenská sporiteľňa won a survey for best employer in the category Banking, Finance and Insurance, run by the website Profesia.sk.



## RETAIL SERVICES

- **Under the loyalty programme 71 thousand more customers gained a discount off the fee for Personal Account management**
- **The number of customers with savings increased by more than a tenth, thanks in part to the sale of savings via tablets**
- **Slovenská sporiteľňa provided new housing loans totalling almost €2 billion, out of which a fifth were mortgage loans for young people**
- **Erste Private Banking grew by 10 %**
- **Clients invested mostly in primary issues**

### Loyalty programme makes daily banking more advantageous

A favourite daily banking product of Slovenská sporiteľňa's customers is Osobný účet (Personal Account), backed by the Výhodný súčet loyalty programme. The loyalty scheme has been highly popular although two years have already passed since its redesign in 2015. In order to get the current account for half the price, or even without monthly fee, it suffice to pay for purchases by a debit or credit card, use standing orders or direct debits, and have a regular saving set up. Slovenská sporiteľňa is one of only a few banks that do not make the account fee discount conditional on income. Further 71 thousand customers benefited from a cheaper account in 2017 thanks to the Výhodný súčet loyalty programme.

Besides the free account option, the bank offers customers several more benefits. Under the Odmena+ programme they can receive benefits for payment card purchases at partner merchants. More than 40 retailers have already joined the programme, these usually being the largest retailers in their segment, providing rebates of up to 10% of the purchase price to the card holders. In 2017 the bank looked to recruit e-shops to the programme since online purchases become ever more popular.

### Sale of savings continued via tablets

Slovenská sporiteľňa's most successful product in the field of deposits has been savings. A modern approach utilizing tablets has been a significant contribution to this since 2016. Each of 1,600 banking advisers, using a tablet, can effectively analyse client's financial situation, monthly expenses, and even client's capacity for saving or eligibility for a loan. As a result, advisory at the branches improved and sales process is now more efficient and, thanks to digital signing, also paperless. In 2017 the number of customers with savings rose by more than a tenth and the number of mutual funds savers rose by almost two thirds.

The product portfolio was complemented also by insurance policies that form a component of the Saving for unexpected situations (insurance against loss or theft of personal belongings, or damages in the household) and Children's Insurance, which is a part of the Children's Savings Passbook – a popular form of saving for children.

### The bank expanded its range of insurance products

Alongside classic banking services, Slovenská sporiteľňa intermediates insurance against several risks to the customers. In addition to the standard insurance of the ability to repay a loan, the bank has launched a unique insurance product LIFE, which flexibly combines

life insurance with guaranteed long-term return along with possibility to have non-standard return from investment part of the insurance.

Since December 2017 each customer has been able to individually model also this insurance in a branch using the tablet application, significantly raising convenience in the selling process. Another addition to the bank's insurance products portfolio in 2017 was an insurance of personal items and cards, which helps customers solving problems such as payment card misuse, or the theft of their documents or mobile phone.

Brokerage of pension insurance products represents a further innovation. Since June 2017, customers have had the option of arranging old-age pension saving (second pillar) and supplementary pension saving (third pillar) in the Žilina and Prešov region. From March 2018 onward, this offer will be extended throughout the entire bank network.

### Consumer loans also in tablets

Last year, Slovenská sporiteľňa succeeded in maintaining high volumes of consumer lending, with new lending in 2017 exceeding €1 billion. Thanks to the Výhodný súčet loyalty scheme, customers were able receive an interest rate of up to 2 percentage points lower. The bank financed customers up to 73 years of age, including optional insurance, also in the past year.

Slovenská sporiteľňa has now implemented consumer loans in tablets, making the in-branch sales process even easier. The main benefits lie in the transparency of each step in the process, and the possibility of choosing from personalised credit offers. Besides all this, the customer also sees on the tablet screen their own banking profile with a clear overview of all their products at the bank. In 2017, Slovenská sporiteľňa also prepared several interesting offers for new customers, raising the attractiveness of its products for this target group.

### Sales of the Mortgage without barriers continued successfully

The Mortgage without barriers was a preferred option of mortgage financing for customers also in the previous year and its sales again secured the bank's market leadership. Under the Výhodný súčet loyalty programme, customers were able to receive a mortgage interest rate discount of up to 0.7 percentage points. Customers also appreciated the bank arranging and paying for the expert appraisal and the cadaster registration. This comprehensive approach with simple rules, free of additional conditions, made these services again unique in the market in 2017. Mortgage lending benefited accordingly, as can be seen from the volume of new loans granted, which were €2 billion in total. Other factors that increased the attractiveness of the bank's loans included its new interactive website, which made the credit process clearer for customers, as well as additional housing advice.

### Erste Private Banking

In 2017, Slovenská sporiteľňa's private banking business grew again, by over 10%. It has more than €860 million under management serving over 1,500 clients. In the past year, private banking clients invested over €50 million in more than 20 primary issues. The most successful issues included an issuance of corporate bonds on behalf of the real estate developer HB Reavis, an issue of Erste

Bank subordinated debt and the issue of an investment certificate with electricity supplier ČEZ as an underlying asset. Investment certificates have been among the most popular private banking products for several years. As a result, Slovenská sporiteľňa facilitated 12 investment certificate issues totalling €15 million.

Clients interested in professional wealth management can opt for Discretionary Portfolio Management. This is a professional, highly diversified instrument for long-term asset management with access to more than 200 Erste Group analysts, which saves clients' time and prevents emotionally biased decision making.

Erste Private Banking is continually expanding its offer with interesting investment opportunities. A new addition to the portfolio was "Erste Private Banking Conservative" – an actively managed mutual fund with portfolio structure covering various investment types (equity, debt, alternative investments and real estate) and offering regular annual payments of returns.

Communication channels of Erste Private Banking were broadened by using its profile on professional social network LinkedIn. Clients are thus provided with information on current economic development, interesting investment opportunities, and new products from Erste Private Banking.

Last year, the first meeting of Ladies Business Club founded by Erste Private Banking was held, bringing together successful and influential Slovak women from various areas to explore interesting and useful topics, to create a space for discussion and to promote the exchange of experience at regular informal meetings. The third meeting of the Ladies Business Club took place at the end of the year and featured a discussion of Women in Business and a charity auction.

## DISTRIBUTION NETWORK

- **The bank upgraded a fifth of its branch network and introduced a new standard of service**
- **36 cash deposit ATMs are already available to clients**
- **The transfer of transactional activities away from branches leads to shorter waiting times and better advisory**
- **The use of tablets branch advisors improves customer satisfaction**
- **The number of clients with activated electronic banking services passed the one million mark**
- **A new and intuitive version of the internet banking service renamed George, with a mobile application called George Go**
- **Improved personalisation of loan offers in internet banking**
- **Digital sales of consumer loans doubled**

### Ongoing upgrade of branch network with a new standard of service

Slovenská sporiteľňa, with 271 branches and 805 ATMs, has the largest bank distribution network in Slovakia. At present, almost a fifth of branches have already undergone reconstruction and modernisation, extending the new concept of customer service throughout the branch network. Its essence lies in achieving a friendlier atmosphere alongside greater comfort and privacy. This is also reflected in growing customer satisfaction with the bank's services, with satisfaction now at its highest level in several years.

As a further convenience, customers of Slovenská sporiteľňa can now use deposit ATMs, which enable them to make cash deposits

as well as withdrawals, at 35 locations. This service is frequently used by customers, who can thus use the bank's services outside of branch opening hours, saving time and money. Furthermore, along with other activities focused on transferring transactions away from branches into an online environment, space is freed for higher quality advice at branches and for shorter waiting times at branches.

Tablet became a key element of service at branches. It gives customers an overview of their products and account movements, and enables them to see tailored offers available at Slovenská sporiteľňa. The tablet promotes transparency and trust between branch staff and the customer, and facilitates better mutual understanding.

## GEORGE, the new internet banking

Slovenská sporiteľňa recorded further growth in the number of its clients using electronic banking services. Over one million of clients were using internet banking, mobile banking or telephone banking in 2017.

The main task for Slovenská sporiteľňa's digital distribution channels was the implementation of George and preparation for its introduction to the Bank's clients. George is a new version of Slovenská sporiteľňa's internet banking service that is inspired by the user interface of internet applications that clients are already familiar with, such as social networks.

George provides a simple and intuitive way to manage family finances in an online environment. Compared to its predecessor, the new internet banking is modern, provides easier searching and management of finances and is user-friendly for all generations. George is also a digital platform where the Bank will continue to deliver new services and enhancements. It already allows users to search for accounts the same way they do the web, using simple words and phrases. An integral component of the service is the creation of a directory of contacts, which makes it easier to navigate through payments and allows users to search using regular names rather than account numbers. George is more interactive and has options for personalisation. At every step there is a guide to explain everything and give examples.

Alongside the new web app, Slovenská sporiteľňa launched a new mobile app, George Go. It replaces the two previous apps, Accounts and Payments. Clients will be able to do everything with a couple of clicks. Online sales are an integral part of Slovenská sporiteľňa's digital banking services and the Bank improved their format in George. The buying process is easier to understand and offers are tailored to each client's needs.

## Digital sales

Throughout the year, Slovenská sporiteľňa made improvements to its digital sales, in particular with sales that began and were even fully completed in digital channels, without any need to visit a branch. The Bank placed particular emphasis on communication and services for products sold through internet banking, the web site, ATMs and the call centre. The main aim was to make products more accessible, easier to understand, and to help the clients with their purchase. With that in mind, the Bank has continuously conducted client testing of proposed changes throughout the year.

Activities performed in area of electronic banking led to significant increase of digital sales. For example, volume of consumer loans granted through digital channels exceeded €100 million in 2017, double the last year figure.

## PAYMENTS AND TRANSACTIONS

- **Slovenská sporiteľňa is ready for the Payment Service Directive 2 (PSD2)**
- **The Bank expanded its network of deposit ATMs**

From the beginning of 2017, Slovenská sporiteľňa began preparing intensively for the introduction of the changes required by the European Union's Payment Service Directive 2 (PSD2). Under this Directive, the Bank is obliged to allow new licensed third parties access to its clients' payment accounts. Third parties granted access by a client will be able to obtain information on the client's accounts in a scope permitted by law and will be able to initiate payments. The changes implemented in the bank's systems will provide clients with a quick and convenient way to obtain consolidated information on their accounts and to make payments from accounts at multiple banks via third parties. Activities at the Bank do not, though, end with the implementation of the prescribed changes. Slovenská sporiteľňa continues to work on ways to develop cooperation with third parties to provide its clients with fast, modern, safe and reliable payment services.

In 2017 Slovenská sporiteľňa continued expanding its network of deposit ATMs that accept euro banknote deposits and automatically credit them to the client's account. Clients of the Bank have access to the largest network of such devices in the Slovak market – amounting to 36 devices as at 31 December 2017. They are located mostly at shopping centre branches but also at selected busy branches elsewhere. At these branches, nearly half of the clients prefer to make deposits via ATM rather than at the cash desk. The service continues to grow, and this year new deposit options were implemented to satisfy businesses' demanding requirements in making deposits to their business accounts.

## CORPORATE BANKING

- **Slovenská sporiteľňa increased its market share in corporate sector lending and deposits**
- **Over the course of the past year, the bank upgraded its corporate electronic banking**
- **Corporate customer satisfaction with the bank continued rising, got ahead of the competition**
- **Advisers' professionalism and flexibility of the bank are the driving force behind satisfaction and loyalty of the bank's corporate clients**

### Slovenská sporiteľňa increased its market shares in corporate banking

In 2017, Slovenská sporiteľňa strengthened its position in corporate sector financing. Lending to businesses rose by approximately €400 million compared to a year earlier, representing almost 1.5 percentage point increase in Slovenská sporiteľňa's market share. This was achieved through both increased lending to existing customers, as well as new customer acquisition. The credit growth above the market growth rate was achieved with no deterioration in

corporate lending risk. The portfolio of standard financial products is complemented by financing solutions for trade receivables and leasing.

### The bank further developed electronic banking for businesses

In 2017 the bank streamlined processes, products and services for corporate clients. New features were introduced to facilitate communication with the bank, for example:

- Electronic banking Business24 was enriched with new features. Besides active management of current and term deposit accounts, standing orders and payments, clients can now manage mandates by themselves, refund requests, or apply for an individual exchange rate. Corporate customers can use the electronic channel to deliver not just regular correspondence to the bank, but also documentation for meeting financing conditions, thus improving the efficiency of corporate processes. Option to manage payment cards directly in electronic banking was also added. In addition to viewing card account turnovers, clients can adjust the card limit, block a card or request a new one.
- The bank unified the login process, so that users do not need to remember multiple usernames and passwords for different services. Likewise, SLSP enabled login and signing via the modern mobile mToken application, which will gradually replace older solutions that required customers to use a separate device. Slovenská sporiteľňa, as the first out of all Erste Group banks, is piloting the extension of automation in the credit approval and monitoring process in the small and medium-sized enterprise segment. In addition to internal efficiency, a high added-value feature of this pilot over the last months of 2017 was the improvement in the predictability and overall acceleration of the approval process, leading to increased success in new customer acquisition.

### The bank affirms its strong market position in the SME segment

In 2017, Slovenská sporiteľňa confirmed its major market position also in the provision of financial services to small and medium-sized enterprises with a turnover of €1 million to €75 million. This segment is served through the Bank's eight corporate centres throughout Slovakia's regions.

In addition to a number of successfully implemented internal projects, the corporate strategy "to be the bank of first choice for corporate clients" was fulfilled also thanks to a proactive business approach, resulting in growth in the number of Bank's active clients. The increase in the rate of active clients has translated into a year-on-year rise in revenues from lending, deposits and transaction banking.

The total number of SME clients grew this year to over 4,600. Including leasing and factoring, the volume of loans rose by 13% as compared to the previous year to €1.1 billion. The volume of assets under management reached €480 million, an increase of 7% against a year earlier.

In addition to loans provided, global transaction banking specialists supported clients' business activities significantly. They helped boost activity in transactions with customers, as demonstrated by an increase in revenues in the area of transaction services and products.

## **A stable and strategic partner for large corporate clients**

In 2017 Slovenská sporiteľňa reaffirmed its strong standing in the large corporate clients segment, with the number of active clients growing by more than 16%. The Bank confirmed its excellent position in the local market through its involvement in co-funding most major structured loans. Persistent low interest rates and the strong competitive environment have again underlined the importance of providing comprehensive care for corporate clients.

A significant portion of the Bank's revenues were achieved through the active use of transaction banking products and services. The highly professional approach of dealers and comprehensive solution of corporate clients' needs ensured their high-degree of loyalty and customer satisfaction. For a certain segment of large corporate clients the Bank yet again made use of comprehensive services and products provided within Erste Group.

A new feature is a digital solution for reverse factoring, which links large companies and their smaller suppliers, improving conditions for trade receivables' financing and administration.

## **Stable volume of financing for real estate projects**

Slovenská sporiteľňa's approach to real estate financing remains conservative. Nevertheless, the bank increased its exposure in this segment by almost 4% this year. The reason for the upturn in the volume of new lending for real-estate funding lay in the market recovery and rising number of business opportunities. Last year the Bank entered into new loan agreements mainly for office space in Bratislava as well as residential projects and commercial space in Slovakia.

## **The bank reaffirms its strong market position in the public sector**

Over the past year, Slovenská sporiteľňa intensified acquisition activities in the public sector, raising its market share in financing of the public and non-profit sector, particularly in the towns and municipalities sector. The bank continued in its intensive cooperation with the Association of Municipalities and Towns of Slovakia (ZMOS) organization also in 2017, whose membership includes more than 95% of towns and municipalities in Slovakia. The bank also cooperated with other professional organisations in the communal sector, such as the Association of Heads of Municipal Offices, the Association of Municipal Finance Officers, and the Association of the Principal Controllers of the Slovak Republic.

## **Activities in the financial institutions segment**

At Slovenská sporiteľňa, the year 2017 was one of preparation for the new regulations that financial markets must comply with from the start of 2018. These regulations, for example, extend the international use of the legal entity identifier code (LEI). The environment of persistently negative interest rates led to an increased interest in exchange traded derivatives among customers. The placement of debt security issues on the Slovak and European markets was comparable with the preceding year. The volume of securities under the bank's management and depository services remained stable at the 2016 level.



## FINANCIAL MARKETS

- **Slovenská sporiteľňa issued own debt securities in a volume of almost €420 million**
- **The bank participated in several major transactions for customers**

### Another successful year in debt capital markets

Slovenská sporiteľňa issued new debt securities last year – mortgage bonds, senior bonds, and investment certificates. Issues were successful in terms of both the total volume of long-term financing and financing costs. In the past year, the bank issued own debt securities for institutional and retail customers in a record-breaking volume of almost €420 million, comprising mostly mortgage bonds. The bank participated in several major transactions for customers. The most significant was an issue of 10-year secured bonds for the HB Reavis Group, totalling €45 million, with exchangeable collateral.

## RISK MANAGEMENT

- **Despite significant growth of loans, volume of non-performing loans shrank from €473 million to €457 million (out of which €449 million of loans were impaired)**
- **The share of non-performing loans dropped significantly from 4.5% to 3.8% in 2017**
- **The total capital adequacy ratio fell to 18.7% in 2017, still higher than minimum requirements by the regulator**
- **The liquidity situation remained stable, comfortably above minimum regulatory requirements**

### Risk management principles

Effective risk management is one of the core pillars for the success of Slovenská sporiteľňa's business operations. Therefore, the bank strives to introduce and to constantly improve processes for monitoring, evaluating and managing all important risks to which it is exposed. These include in particular credit, market, operational and liquidity risk.

The bank's objective in the area of risk management is to be able to identify all important risks to which it is exposed, accurately estimate their possible adverse impact and to have procedures in place to manage and control them effectively. Risk management is guided by the following basic principles:

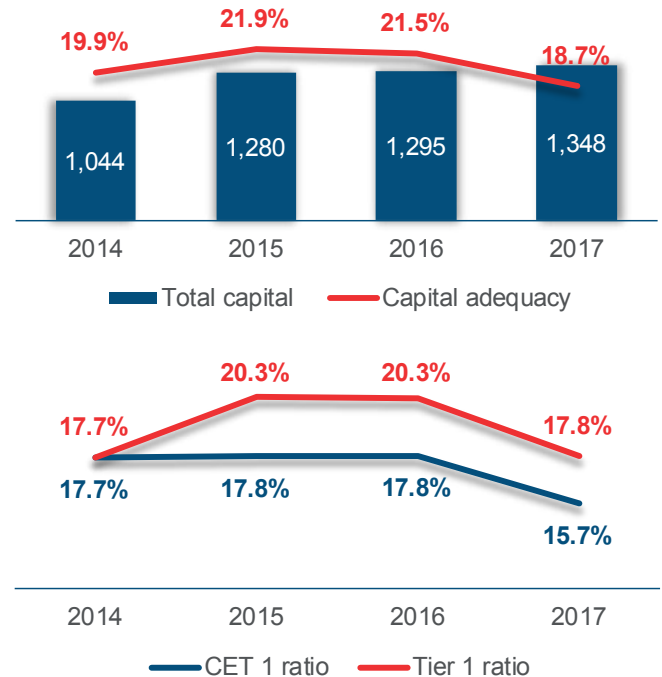
- prudent approach to risk, emphasising long-term sustainability;
- risk management is as far as possible independent of business lines; it is centralised and has sufficient resources and powers to fulfil its functions;
- risk management is integrated; the overall risk profile reflects interdependencies between individual types of risk, and risk exposure is constantly managed with regard for the amount of capital available;
- the bank does not enter into transactions, investments or products involving risks that it cannot assess or manage.

In 2017, the bank redefined its binding Risk Appetite Statement, which is a set of indicators determining the bank's target risk profile. This document was one of the defining starting points in creating the bank's strategic business plan.

### Capital adequacy slightly decreased

The bank's consolidated capital adequacy moved from 21.5% at the end of 2016 to 18.7% in 2017. Despite the increased volume of loans, capital adequacy was maintained at a high level. Throughout the year, the bank easily satisfied the ECB's minimum capital adequacy requirements, including all capital buffers. The long-term development of Tier 1 and CET 1 capital ratios copies the trend of total capital adequacy. Since 2015, the Tier 1 indicator has been slightly higher than CET 1, thanks to additional Tier 1 capital in a volume of €150 million.

#### Capital and capital adequacy



### Liquidity situation remained stable

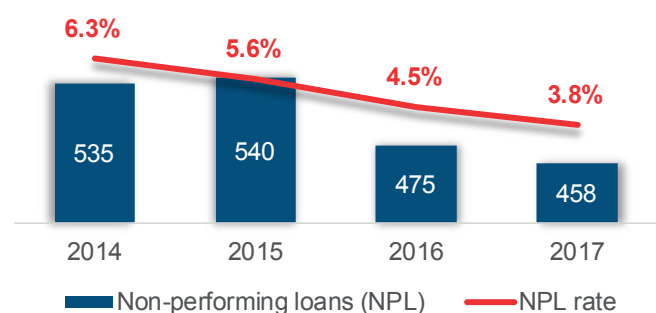
There are no problems with the bank's liquidity situation; the bank fully satisfies both statutory and internal requirements. The Liquidity Coverage Ratio (LCR) averaged 245% over the year (the minimum value reached was 224%), well above the statutory limit of 100%. The Net Stable Funding Ratio (NSFR) was above the 130% threshold; the statutory limit is 100%. The bank holds about €4 billion in highly liquid assets as a liquidity buffer (mainly Slovak government bonds) and complies with internal limits for survival period (survival period analysis), as well as limits on finance concentration.

### Fall in the share of non-performing loans

Slovenská sporiteľňa recorded a significant fall in the share of non-performing loans\*, from 4.5% in 2016 to 3.8% in 2017. This was achieved through a combination of prudent credit policy, prevention, streamlining collection, and the regular write-offs and sales of non-performing loans. Reflecting the positive trend in non-performing loans, the bank also reported lower provisioning in both the retail and corporate segments, from €43.8 million in 2016 to €33.6 million in 2017.

\* Slovenská sporiteľňa follows the definition of non-performing loans as formulated by EBA.

### Non-performing loans and the NPL rate



### Decline of non-performing loans in retail continued despite legal restrictions

The share of non-performing retail loans fell from 4.0% in 2016 to 3.6% in 2017, confirming the improving quality of the retail portfolio. As in 2016, the methodology used by the bank for defining non-performing loans was one of the most conservative in the banking market. The fall in non-performing loans, in addition to positive macroeconomic development, is largely the result of continued enhancement in recovery efforts for unsecured and secured loans. Growth in the bank's loan portfolio was another contributory factor.

### Impact of legislative and regulatory changes

In 2017, mandatory licensing by the National Bank of Slovakia was extended to entities purchasing real-estate secured loans. This, however, did not have such a significant impact on the sale of secured loans in 2017 as that seen in the sale of unsecured loans in 2016. The main factors influencing increased sale of receivables in 2017, totalling €80.1 million, were the progressive implementation of technical changes in the bank's systems, reflecting the legal environment, and the sale of a significant volume of receivables collected via court mandate. These factors made a significant contribution to reducing NPLs in the bank's portfolio.

On 1 March 2017 an amendment to the Bankruptcy & Restructuring Act came into effect, regularising and greatly simplifying the debt relief process for individuals compared to the past. In consequence of this legal amendment, Slovakia saw substantial demand for possible debt relief in 2017 from the side of insolvent persons by way of bankruptcy or in the form of a repayment schedule. This was reflected in growth in the number of personal bankruptcies declared, which in 2017 exceeded 5 200. Of this number, Slovenská sporiteľňa recorded 860 personal bankruptcies (about 16%). Of those, the receivable is managed in the case of 480 customers.

### In lending the emphasis remains on own customers

As in the previous year, a substantial part of the growth in the loan portfolio in 2017 came from the bank's own customers. Here Slovenská sporiteľňa benefited from its strong position in retail banking in Slovakia. Since the bank knows its own customers well, it is able to assess their risk profile more precisely.

Loan portfolio growth was driven mainly by loans secured by real estate. This portfolio is, in retail terms, the most important. The bank therefore carefully tests its sensitivity to systemic risks. In 2017 the situation in housing loans changed, as a new regulation entered into force aimed at slowing the dynamic growth in consumer

indebtedness. Gradually, the market had to implement new rules on assessing a consumer's ability to repay loans in the form of a reserve in their household budget, stress testing for repayment instalments and loan-to-value (LTV) limits. Slovenská sporiteľňa saw further healthy growth in new housing loans, satisfying customers' primary needs. Persistent low prices on loans continued to drive the growth and affordability of housing loans, whilst on the other hand, new regulation contributed to a partial slowdown in real estate price growth.

Consumer loans were another major contributor to loan portfolio growth. Their growth was again influenced by the efforts of Slovenská sporiteľňa and other banks to provide customers with solutions in the form of a single loan to replace multiple loans. In consumer loans, the share of own customers in newly-granted loans exceeds the share seen in loans secured by real estate. Both on the market and in Slovenská sporiteľňa's portfolio there remains a noticeable trend of growth in the size of the average consumer loan, which reflects customers consolidating their loans from various financial institutions into a single loan, which the customer can service more easily while giving the bank a clearer overview of the customer's total debt and repayment ability. To mitigate the equally dynamic growth in debt taken on by consumers, the National Bank of Slovakia introduced tighter regulations for consumer lending at the end of 2017, the effects of which will be seen only in 2018.

### Improving the quality of data on security

In 2017, the bank made large investments in the further digitalisation of the security process and automation of data flows, with a view to streamlining work, eliminating errors in manual processing, and securing the necessary data for regulatory and group supervision with adequate quality. The bank continued its plan for cooperation with the network of contracted property valuers, whilst a statistical model was used for revaluing existing security in the form of residential real estate, and a team of internal property valuers revalued commercial real estate. For both contracted and internal property valuers, the bank arranged expert training and regular annual recertification in cooperation with Ústav stavebného inžinierstva Žilina.

### Substantial fall in delinquent corporate loans

The trend of substantial decline in the share of non-performing corporate loans at Slovenská sporiteľňa continued again in 2017. The bank recorded a fall in the share of non-performing corporate loans from 6.0% in 2016 to 4.4% in 2017. The total volume of non-performing loans fell by €22 million to €124 million. This fall in non-performing loans was recorded across all corporate banking segments. The number of clients in default remained stable at the 4.3% limit.

The significant improvement in the quality of the corporate loans portfolio can be seen as the successful outcome of a number of steps taken over the preceding years (e.g. lending policy adjustments for individual corporate banking segments, fine-tuning of the early warning signals monitoring system), as well as ongoing work with the non-performing portfolio. The progress achieved surpassed planned targets.

## HUMAN RELATIONS

- **The Bank's employees live by its values**
- **The Blue Butterfly platform has continued in changes affecting many aspects of Human Relations**
- **Slovenská sporiteľňa supports women as managers**
- **The Bank develops its talents**
- **Creative meetings throughout the year now in more regions**
- **Volunteering is part of life at Slovenská sporiteľňa**

### **Slovenská sporiteľňa is rated positively by its employees**

Slovenská sporiteľňa's employees give a very positive assessment of their working environment and the Bank as an employer. The evidence comes from the results of the corporate culture survey that the Bank conducted in the past year. The results showed that it was above average in the tested group of companies from the Czech and Slovak market. A steep decrease in employee turnover in 2017 provided further evidence of employee satisfaction.

### **Employer branding, or how employees made a name for themselves at the Bank**

One of Slovenská sporiteľňa's innovations in 2017 was presenting its character as an outstanding employer in its outward marketing. Slovenská sporiteľňa's working environment has long been designed to maintain a healthy balance between employees' work and private life. Yoga and karate lessons, a variety of informal education and extra leave are all opportunities to relax as well as cultivate out-of-work activities. In its campaign "Make a name for yourself as a professional and as a person," Slovenská sporiteľňa decided to use these activities to promote itself as an employer that treats employees as people through the stories of workers with the best experience of this attitude. Representatives were chosen from every region of Slovakia so that the campaign was unique in every single region. The employees' faces appeared in physical and digital adverts: on social networks, websites, billboards, and public transport.

### **Employees joined together to help**

The Blue Butterfly platform brings together several initiatives supporting the Bank's company culture, including a game under the same name for Bank employees. The aim was designed to make connections between headquarters and retail network employees, as well as within the two groups. The employees' task was to do a good deed in 30 seconds, either by doing something that made a person's day better, by helping a colleague or simply disclosing something from their personal life. All this helped staff to get to know each other outside the work bubble. These small actions can be thought of as the fluttering of a butterfly's wings, which may barely stir the air but can start a chain of consequences leading to a tornado on the other side of the world. Further motivation was that the best teams could support one public interest project of their own choice, and thanks to this game Slovenská sporiteľňa ended up supporting as many as five meaningful projects.

### **New scarves and ties for branch colleagues**

Slovenská sporiteľňa has been working on ways to make branch workers stand out from clients for two years. It has been cooperating with Lea Fekete, one of Slovakia's best fashion designers. The result

is an exceptional collection of scarves and ties in the Bank's colours with unique patterns designed exclusively for Slovenská sporiteľňa. A new series of scarves was launched in 2017 to complement the existing corporate look in the dress code.

### **Informal education for employees**

Last year Slovenská sporiteľňa continued its provision of education for employees in more than just their professional field. HydePark is a unique meeting format that brings interesting guests to the Bank's central offices every week. From Bratislava and Banská Bystrica, it has spread to the client centre offices in Nitra. The HydePark tour brought lectures and workshops to colleagues in Piešťany, Nové Mesto nad Váhom, Nitra, Prievidza, Komárno, Dunajská Streda, Ružomberok, Dubnica nad Váhom, Košice and Prešov.

Every month, Bank employees could develop their "soft skills" through "Brain Gym" activities. They learned skills like recognising a liar from their body language or how to cope better with stress. The Bank continued to offer half-day inspirational meetings for managers at headquarters once a month focusing on developing managerial skills.

### **Conferences for managers**

Managers also need to take inspiration from specialists in non-bank sectors. To provide it, Slovenská sporiteľňa organises several conferences each year, which serve for both education and socialising. In 2017, the Bank organised for its managers the seventh annual edition of its internal conference "An Evening of Inspiration". The main theme was cooperation. Internal speakers shared the stage with guests such as the visually impaired ceramics artist Soňa Zelisková, the mayor of Spišský Hrhov Vladmír Ledecký, and the first Slovak to climb all the world's eight-thousand-metre peaks Peter Hámor. A new conference that the Bank organised in 2017 was the inaugural "Woman to Woman" conference for women managers in Slovenská sporiteľňa. This had a completely different content to other professional conferences because it aimed to highlight the positive contribution women make to management and to motivate women to participate in business in ways that are natural for them.

Managers of many years' experience also appreciate the opportunity to take a sabbatical, which is paid leave that can be used in various ways for periods of one to six months.

### **The Bank cultivates its talents**

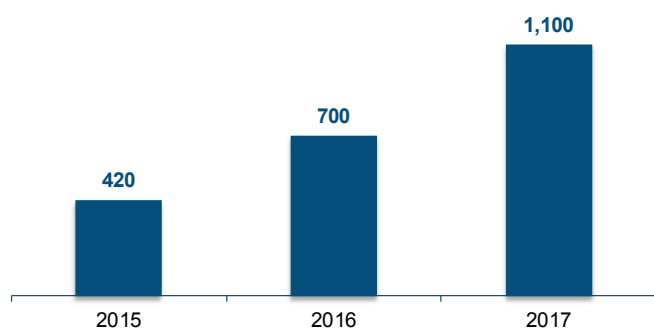
Slovenská sporiteľňa organised several forms of educational activities during the year for specific groups of employees. It has been operating a development programme for talented employees for a decade for which the Bank recruits employees from headquarters as well as from the retail network. The proportion of programme graduates promoted to management positions last year was 68% and the rate over the last ten years was 76%.

### **Volunteering is part of life at Slovenská sporiteľňa**

The Bank's offer to let staff dedicate a day to any voluntary activity was taken up by 1 100 employees, which was an increase of 6% compared to the previous year. In terms of hours, this means Slovenská sporiteľňa's employees provided 8 800 hours of voluntary

service. The most popular activities were group volunteering, and activities in the social area were the most numerous.

#### **Number of volunteers in Slovenská sporiteľňa**





# Summary Corporate Governance Report

## CODE OF CORPORATE GOVERNANCE

The management of Slovenská sporiteľňa recognises the importance of sound and responsible corporate governance. The basis for applying the principles of corporate governance is the commitment declared in 2003 by Slovenská sporiteľňa's parent company – Erste Group Bank, which included a voluntary undertaking to abide by the Austrian Code of Corporate Governance. The Bank, as a member of the Erste Group, has implemented the Group Governance Policy. This policy reflects the main standards and principles of the OECD Principles of Corporate Governance, as well as those of the Austrian Code of Corporate Governance. Slovenská sporiteľňa, as a member of the Central European Corporate Governance Association (CECGA), has concurrently undertaken to observe the Code of Corporate Governance in Slovakia issued by that association (hereinafter simply the "Governance Code"). The company takes all its decisions and carries out all its actions in accordance with the principles of the Governance Code and the adopted Group Governance Policy. Application of the principles and rules of the Governance Code is significantly influenced by the fact that Slovenská sporiteľňa has a sole shareholder owning 100% of the shares issued by the company, and its shares are not traded on any stock market. Certain provisions of the Governance Code relating to the exercise and protection of shareholder rights therefore need not be applicable, or are applied to the sole shareholder. The codes of governance are publicly available on the websites: [www.corporate-governance.at](http://www.corporate-governance.at) and [www.cecga.com](http://www.cecga.com).

Over the course of 2017, Slovenská sporiteľňa complied with all Group Governance Policy rules, as well as the applicable principles of the Governance Code.

Slovenská sporiteľňa has in place a Global Compliance Code establishing a set of ethical standards, principles and binding rules for the Bank and its staff. The responsibility of the Bank and its employees toward clients, and the responsibility of the Bank and its staff to one other are the basis for strict compliance with the adopted rules and standards of the Global Compliance Code. The Bank applies a policy of zero tolerance to any violation of this code. The Code, adopted by the Board of Directors, was drawn up in compliance with European Union requirements for harmonising legislation and unifies the internal standards of Slovenská sporiteľňa with the internal standards of the Erste Group. It is also a practical guide on how to apply statutory provisions in day-to-day contact with information that could alter the behaviour of market entities. Furthermore, it is a point of reference for preventing or resolving conflicts of interest between the Bank, its staff, management and customers. The Compliance Code sets out the Bank's anti-corruption policy and establishes methods and procedures for reporting suspected cases of corruption or anti-social activities.

Pursuant to requirements for raising the level of corporate culture, particularly in securities trading, the Bank consistently applies measures under the European Commission Directive on markets in financial instruments (MiFID) for strengthening consumer protection in trading in investment instruments.

Other key documents strengthening customer protection in the banking environment are the Code of Ethics in the field of consumer protection, representing the Bank's commitment to providing high-quality financial services to its customers while respecting the principle of fair and transparent business, and the voluntary Code of Conduct, which applies to the provision of pre-contractual

information to customers. The latter implements the basic material of the European Agreement on a Voluntary Code of Conduct on Pre-Contractual Information for Home Loans. It has been adopted at the level of European institutions of consumer and the European Credit Sector Associations.

The Code of Ethics and Code of Conduct on providing pre-contractual information for housing loans are published in a digital format on the Bank's website.

Above the framework of statutory requirements in this area Slovenská sporiteľňa has adopted its own Code of Conduct for the provision of financial services. The code is based on the common values and principles of the whole Erste Group including Slovenská sporiteľňa. It is a set of binding rules and recommendations affecting the day-to-day business activities of all the Bank's employees. The Code defines what is permitted in relation to customers, the company, employees and the shareholder and sets the standard for our actions as a socially responsible company that must act responsibly in all matters, with respect and without undue risk. It is an important instrument for ensuring the quality in internal and external environments. It is made available to all employees and to clients and the public on Slovenská sporiteľňa's website.

## RELEVANT INFORMATION REGARDING MANAGEMENT AND ORGANISATION OF THE COMPANY

The management structure of Slovenská sporiteľňa, as well as that of its parent company – Erste Group Bank, comprises a Supervisory Board and Board of Directors. The Supervisory Board is the Bank's supreme control body. It supervises the activities of the Board of Directors and the implementation of the Bank's business activities. It regularly reports to the General Assembly on its activity. The Board of Directors is the Bank's statutory body, managing its activity and acting on its behalf. It decides on all matters of the Bank not reserved under generally binding legal regulations or the Bank's Articles of Association for the General Assembly or Supervisory Board.

The basic and fundamental rules of the Bank's operation and existence are set out in the Slovenská sporiteľňa Articles of Association (the "Articles"). Any changes to the Articles must be approved by the General Assembly. In addition to mandatory requirements under the provisions of the Commercial Code no. 513/1991 and Act no. 483/2001 Coll. on banks (the "Banks Act") applicable to every joint-stock company, the Articles govern the Bank's organisation and system of management, relations and cooperation between the statutory body, Supervisory Board, the Bank's officers, internal audit unit and the Bank's committees. The Bank, in addition to those activities set out in the Articles and entered in the Commercial Register, may, following approval by the National Bank of Slovakia, also perform activities other than banking, related to the operations of the Bank and companies belonging to the consolidated and sub-consolidated Erste Group Bank AG. These activities, in accordance with the Banks Act, are not entered in the Commercial Register.

The company's organisational structure, basic principles of its organisational arrangement, and the responsibilities, activities and roles of the company's organisational units are described in the Slovenská sporiteľňa Organisational Code. The Organisational Code is defined in accordance with the Commercial Code, the Banks Act, the Securities Act, the Articles and other acts of general application,

and is binding on all company employees.

The company performs its activities through its organisational units, comprising the headquarters, branch network, and other units established under the Bank's internal regulations. Responsibility for the creation, implementation, coordination, monitoring and control of the Bank's business objectives lies with the Board of Directors. In compliance with acts of general application, the Bank maintains within its organisational structure a separation between activities and powers and responsibilities in the following areas:

- risk management and banking activities;
- lending and investment business, and monitoring of risks to which the Bank is exposed;
- monitoring of risks arising from conducting banking activities with persons with a special relationship to the Bank.

In 2017 the company maintained its principle of separate risk monitoring and performance of banking activities to the highest levels of management. The Corporate Credit Risk Management, Retail Credit Risk Management, Strategic Risk Management and Compliance and Operational Risk Management departments must not engage, and during 2017 did not engage, in any banking, lending or investment business. Competence for authorising transactions with persons with a special relationship to the Bank is exercised by the Board of Directors of the company in accordance with the Banks Act and the Organisational Code.

Slovenská sporiteľňa has not established any units abroad and does not perform banking activities outside Slovakia.

## INTERNAL CONTROL AND RISK MANAGEMENT

### Internal control system

Slovenská sporiteľňa has in place an internal control system with clearly defined principles and standards. Effective internal control is the basis of sound risk management; it safeguards the Bank's assets, helps reduce or prevent the potential occurrence of serious errors or operational risk events, and helps in their timely detection.

Slovenská sporiteľňa's internal control system has the following objectives:

- to prevent and detect errors and any inefficient or wasteful use of resources;
- to implement, monitor and evaluate measures for protecting the Bank against money laundering and terrorist financing;
- to prevent and detect abuses and fraud;
- to ensure the effectiveness and efficiency of banking operations;
- to ensure the integrity, accuracy, timeliness and reliability of information;
- to raise the quality of record-keeping;
- to monitor compliance with laws, regulations and internal policies.

The Bank's Board of Directors is responsible for ensuring that an appropriate and efficient internal control system is implemented and that it is regularly monitored, evaluated and updated.

Each organisational unit is responsible for practical implementation and compliance within its remit. Senior managers are responsible

for internal control at the level of the executive, and may not delegate this responsibility.

The Bank's employees are responsible for their work and must abide by the principles of the internal control system. They perform their work in accordance with applicable laws and the company's internal guidelines. Moreover, they comply with competences related to the approval and authorisation for their work. Internal control is a part of their work and responsibilities. The results of each inspection are documented, and the responsible employees oversee the correction of shortcomings and the implementation of measures identified in their findings.

An independent component of the internal control system is the Internal Audit Division, which reports directly to the Bank's Supervisory Board. The CEO is responsible for its establishment and its operational functioning. Internal Audit is fully independent from all the Bank's activities. This independence is reflected in all stages of its work, particularly during identification and analysis of risks, the planning and preparation of audits, including the selection of review and evaluation methods, drafting and submission of audit reports, evaluation and follow-up of measures taken. In accordance with applicable legislation, internal audit review and evaluation are also applied to outsourced and insourced activities, to the implementation of and compliance with remuneration principles, information systems security, etc. Approval of the internal audit strategy and inspections plan lies in the competence of the Supervisory Board, following prior deliberation in the Supervisory Board Audit Committee. The Audit Committee also approves the Internal Audit Statute and monitors and evaluates the efficiency of Internal Audit Division.

Slovenská sporiteľňa pays particular attention to measures for protecting the Bank against money laundering, terrorist financing and financial fraud. The independent Compliance and Operational Risk Management department is responsible for their implementation. One of the unit's responsibilities is monitoring compliance with the Bank's internal regulations and rules issued by regulatory bodies; another is identifying and dealing with fraud, including the application of preventive mechanisms, in accordance with sanction policies and measures. Slovenská sporiteľňa applies a principle of zero tolerance of corrupt conduct and enforces and monitors compliance with the principle. The Bank consistently implements guidelines on the reporting and investigation of antisocial activities, including the establishment of an independent and anonymous means for reporting corrupt or antisocial conduct that is available to staff 24 hours a day.

### Risk management and control system

Slovenská sporiteľňa has, in accordance with applicable Slovak legislation, a risk management system in place which is based on a clearly defined risk management strategy, the Bank's risk appetite and the Bank's ethical values. The Bank has a designated person on the Board of Directors, responsible for risk management. Within its competence, the Board of Directors has established a Risk Management Committee, responsible for compliance with and monitoring of the effectiveness of the risk management system and the periodic review of its effectiveness and adequacy. The effectiveness of risk management is overseen by the Supervisory Board, or the Supervisory Board Audit Committee. Within its organisational structure, the Bank keeps trading and investment activities strictly separated from risk management.

Organisational units for strategic risk management, corporate credit risk management, retail credit risk management, restructuring & workout, compliance & operational risk management and legal services report to the member of the Board of Directors responsible for risk management.

The risk management strategy of Slovenská sporiteľňa defines the fundamental principles and objectives of risk management, and describes the management process, responsible persons and competences for risk identification, monitoring, controlling and management. It also defines the Bank's policy and positions in the area of individual types of risk to which it is or may be exposed. Procedures and measures for mitigating or eliminating individual types of risk are set out in the Bank's internal guidelines and published for the Bank's staff via an internal information channel.

The primary objective of the Bank's risk management is to achieve a sustainable ability to identify all significant risks to which it is exposed, to evaluate and quantify the potential impact of risks on the value of the Bank's assets and to have in place policies and internal regulations enabling efficient risk management in the current situation. The Bank has a process prepared for managing every identified risk. The effectiveness and adequacy of the risk management system in place is reviewed with reference to the adopted strategy upon each major change in the risk management process, or in any risk-related activity, at least once a year. The Bank also, when developing and evaluating the scenarios of comprehensive stress testing, takes into consideration all material risk types (credit, market, operational and liquidity risks, etc.) In accordance with statutory and regulatory provisions, the Bank continuously evaluates and maintains its ability to bear risk in the changing economic and market environment in which it operates. The risk management system in place, including the monitoring of the applicable limits for each risk, enables the Bank to manage its risk profile in a responsible manner and to provide and secure financing under normal circumstances and in the case of major changes.

Within the overall risk management strategy, the Bank has developed its own system for the Internal Capital Adequacy Assessment Process (ICAAP). The assessment system takes into account all real market risks to which the Bank is exposed, and which must be continuously covered by its own internal capital. The limits and measures for covering unexpected losses correspond to the nature, scope and complexity of the banking activities in accordance with the Bank's adopted business strategy. The Bank has implemented the ICAAP framework and standards, including the RAS (Risk Appetite Statement) methodology, in accordance with the Erste Group's policy, and it takes them into account in managing and setting business objectives.

## INFORMATION ON THE COMPOSITION AND ACTIVITIES OF THE COMPANY'S BODIES AND THEIR COMMITTEES

The rules for the appointment and dismissal of members of the company's bodies are set out in Slovenská sporiteľňa's Articles, which are approved by the Shareholders' General Assembly pursuant to the provisions of the Commercial Code. In order to ensure the effectiveness of the Supervisory Board's monitoring and supervisory function, the election and dismissal of members of the statutory body falls within the competence of the Supervisory

Board. The Supervisory Board elects members of the Board of Directors subject to the prior approval by the European Central Bank; Slovenská sporiteľňa is subject to ECB supervision because it is a systemically important bank. The appointment and dismissal of Supervisory Board members other than representatives elected and dismissed by employees lies in the authority of the General Assembly, following prior consent by the European Central Bank and after scrutiny of the independence and suitability of the proposed candidates. The suitability of members of the Supervisory Board and the Board of Directors and the company's top management is assessed in accordance with the guidelines issued by the European Banking Authority (EBA/GL/2012/06) and the Banks Act, as amended. Increasing gender diversity requires that diversity be taken into consideration in appointments to the Supervisory Board and the Board of Directors. The overall target for the Erste Group is for women to make up 35% of these bodies by 2019. In 2017 women held 36% of the seats in the statutory and supervisory bodies of Slovenská sporiteľňa.

## Shareholders' General Assembly

Pursuant to statutory provisions, the Shareholders' General Assembly is the company's supreme body. It is held at least once a year, and the shareholder participates at it personally, or by means of an authorised representative. The extent of the competence of the Slovenská sporiteľňa General Assembly is defined in the Articles. A two-thirds majority of all shares is required for a change to the Articles, in accordance with applicable legislation. The General Assembly also has the competence to decide on share capital increases or decreases, to elect or dismiss members of the Supervisory Board and other bodies stipulated in the Articles with the exception of the Supervisory Board members elected and recalled by employees, to approve the company's regular and extraordinary individual financial statements, to decide on the distribution of profits or settlement of losses and directors' fees, to decide to wind up the company or change its legal form, to have the Bank's shares removed from trading on the Stock Exchange, and to decide that the Bank will cease to be a public joint-stock company. Slovenská sporiteľňa has a sole shareholder, which can take decisions either at the General Assembly or in the form of a sole shareholder decision, which replaces the effect of the General Assembly. The Bank complies with statutory provisions related to the protection of shareholder rights, with emphasis on the timely provision of all relevant information on the state of the company, and due process in the convening, voting and decision-making of the Shareholders' General Assembly.

In 2017, one ordinary General Assembly was held, and three decisions of the sole shareholder were taken. At the General Assembly on 27 March 2017, the shareholder approved the annual individual and consolidated financial statements, the profit distribution, and the company's Annual Report for 2016. The General Assembly also approved the appointment of PricewaterhouseCoopers Slovensko, s.r.o. as the external auditor to audit Slovenská sporiteľňa's financial statements. By a decision of the sole shareholder, Tatiana Knošková was appointed a member of the Supervisory Board on 25 May 2017. By a decision of the shareholder on 7 August 2017, Gernot Mittendorfer and Jan Homan were re-elected as members of the Supervisory Board.

The company's sole shareholder, exercising the powers of the General Assembly, decided on 9 October 2017 to approve the principles for remuneration for members of the Supervisory Board of Slovenská sporiteľňa, which are based on and in conformity with the company's remuneration policy.



All information on the General Assembly's activities, its powers, a description of shareholders' rights and the procedure for their application are set out in the Articles, the full text of which is held at the Bank's headquarters and is also available on its website. No amendments were made to the Articles during 2017.

## Supervisory Board

The Supervisory Board is the Bank's supreme control body. The Articles stipulate that it may have 3 to 6 members, two third of whom are elected by the General Assembly with the remainder being elected by employees of the Bank. Membership on the Supervisory of Directors may not be deputised. The Supervisory Board oversees the Board of Directors and the Bank's business operations. Meetings are normally held on a quarterly basis. The competences of the Supervisory Board include supervising compliance with acts of general application, compliance with the Articles and the General Assembly's decisions, scrutinising the Bank's financial statements and making proposals for profit distribution or settlement of losses. The Supervisory Board regularly examines reports on the state of the Bank's business and the balance of its assets, monitors the Bank's risk management position, deliberates on the report on the remuneration system, submits its opinions and statements, recommendations and proposals for decisions to the General Assembly and Board of Directors, and assesses information from the Board of Directors regarding the Bank's principal business objectives. It pre-approves the establishment of legal entities by the Bank and the appointment of the Internal Audit Division Director; it elects members of the Board of Directors and its Chairman. The Supervisory Board informs the General Assembly of its activities by way of regular reports. The Supervisory Board may establish committees and set the scope of their activities.

### Composition of the Supervisory Board and term of office

Slovenská sporiteľňa's Supervisory Board has six members. The term of office of members of the Board of Directors is five years, subject to the Articles. In 2017 the Supervisory Board acted in the following composition:

| Member of the supervisory board   | Year of birth | Occupation          | Date                      |                           |
|-----------------------------------|---------------|---------------------|---------------------------|---------------------------|
|                                   |               |                     | of first election         | End of term               |
| Gernot Mittendorfer (chairman)    | 1964          | board member        | 23. 3. 2012<br>7. 8. 2017 | 23. 3. 2017<br>7. 8. 2022 |
| Jan Homan (vice-chairman)         | 1947          | CEO                 | 4. 5. 2012<br>7. 8. 2017  | 12. 10. 2016              |
| Ludovít Ódor <sup>1</sup>         | 1976          | economic analyst    | 4. 5. 2012                | 4. 5. 2017                |
| Tatiana Knošková <sup>1</sup>     | 1973          | lawyer              | 7. 8. 2017                | 12. 10. 2016              |
| Beatrika Melichárová <sup>2</sup> | 1957          | trade union officer | 1. 1. 2017                | 19. 12. 2018              |
| Alena Adamcová <sup>2</sup>       | 1967          | bank advisor        | 25. 5. 2017               | 24. 6. 2016               |

<sup>1</sup> independent member of the Supervisory Board

<sup>2</sup> member of the Supervisory Board elected by employees

In accordance with the requirements laid down by guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), two members of the Supervisory Board satisfied the criteria of independence in 2017.

## Committees and advisory bodies of the Supervisory Board

In line with statutory and regulatory requirements and corporate governance principles, the Supervisory Board has established the following committees:

### Audit Committee

The Audit Committee oversees the financial reporting process, the effectiveness of the internal control system (including IT security), compliance with statutory requirements, the effectiveness of risk management, internal audit activities. Additionally, it analyses recommendations made by external and internal auditors. Based on a proposal by the Board of Directors, it recommends an external auditor for the company to the General Assembly. As a rule, the Audit Committee convenes quarterly.

### Credit Committee

The Credit Committee, in accordance with the Bank's Competence Rules, approves credit business (new business, adjustment of the terms of already-approved credit, restructuring and workout) with corporate clients, municipalities and retail clients. It does not approve loans or guarantees for persons with a special relationship to the Bank, which are approved at the level of the Board of Directors.

### Remuneration Committee

The Remuneration Committee is established under the provisions of Act no. 493/2001 on banks establishing the rules for prudent management of banks and securities dealers. It independently assesses the remuneration principles and their impact on risk management and the Bank's own capital and liquidity. It prepares decisions on the remuneration of selected categories of Bank employees, particularly those responsible for taking on risk and others whose professional activities have a material impact on the Bank's risk profile. In doing so it takes particular account of the mechanism for balancing all risks, liquidity and capital, with the aim of ensuring long-term prudent management of the company.

### Nomination Committee

The committee was established in compliance with the European CRD IV Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. It assists the Supervisory Board in decisions on new nominees to the Board of Directors and the Supervisory Board, and the assessment of their suitability; it evaluates the structure, size and performance of both bodies.

## Board of Directors

The company's statutory body is the Board of Directors. Members of the Board of Directors as well as its chairman are elected by the Supervisory Board. In accordance with the Articles, the Chairman of the Board also serves as the CEO; the Deputy Chairman of the Board also serves as the first Deputy CEO; other members of the Board of Directors concurrently serve as Deputy CEOs.

The Board of Directors performs its activities on the basis of and in compliance with its rules of procedure. Meetings of the Board of Directors are held at least once a month. Its responsibilities and competences are defined in the Articles. It decides on all the Bank's affairs not reserved under generally binding legal regulations or the Articles for the General Assembly or Supervisory Board. The Board of Directors is responsible for efficient and proper corporate

governance, appropriately taking into account the interests of the shareholder, employees, clients, as well as public interests. It takes each decision in accordance with applicable legislation, the Articles, as well as internal regulations and guidelines. The Board of Directors decides on the Bank's strategic objectives and business plan, as well as that of its subsidiaries, its organisational structure, remuneration system and staff competences at each organisational grade, the company's internal control system, the provision of loans to persons with a special relationship to the Bank, the issuing of selected types of securities and outsourcing of selected activities, internal guidelines required under acts of general application or under Erste Group rules. In addition, it also takes decisions on the company's policy for specialised areas, such as business activities and terms, risk management, including maintaining an effective system of risk management, compliance and protection of the Bank against money laundering and terrorist financing. With the prior consent from the Supervisory Board, the Board of Directors approves the Internal Audit Division's plan of activities, and the Internal Audit Division Director's salary conditions.

#### Composition of the Board of Directors and terms of office

The Board of Directors of Slovenská sporiteľňa has five members. The term of office of members of the Board of Directors is, pursuant to the Articles, five years. In 2017, the Board of Directors worked in the following composition:

| Board member                   | Year of birth | Date of first election | End of term |
|--------------------------------|---------------|------------------------|-------------|
| Štefan Máj (chairman)          | 1952          | 21. 12. 1998           | 3. 1. 2021* |
| Peter Krutil (deputy chairman) | 1968          | 17. 12. 1998           | 3. 1. 2021  |
| Zdeněk Románek                 | 1976          | 15. 6. 2015            | 15. 6. 2020 |
| Richard Chomist                | 1974          | 1. 4. 2015             | 1. 4. 2020  |
| Alexandra Habeler-Drabek       | 1970          | 1. 1. 2017             | 1. 1. 2022  |

\* with effect from 31.12.2017, Štefan Máj resigned both his membership and chairmanship of the Board of Directors

#### Competences and responsibilities of members of the Board of Directors

| Board member                   | Area of competence                                                                                                                                                                                                            |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Štefan Máj (chairman)          | Strategy & Quality Management, Human Relationships, Communication & Sponsoring, Accounting & Controlling, Balance Sheet management, Facilities, Environment & Construction;                                                   |
| Peter Krutil (deputy chairman) | Large Corporate Clients, Corporate Clients, Global Transaction Banking, Real Estate Financing & Project Financing, Corporate Banking Management & Development, Treasury;                                                      |
| Zdeněk Románek                 | Retail Product Management, Customer Relationship Management, Client Centre, Digital Banking & Marketing, Branch Network Management, Retail Banking Performance & Development, Bancassurance, Social Bank and Private Banking; |

Alexandra Habeler-Drabek Strategic Risk management, Corporate Credit Risk Management, Retail Credit Risk Management, Compliance & Operational Risk Management, Security, Restructuring & Workout, Legal Services. Appointed as the person responsible for risk management functions and person responsible for gender equality;

Richard Chomist IT Development, IT Operation, Architecture, Change Management & Project Management, Financial Management of IT Services, Security, Payments & Settlement, Retail Processing Centre. Appointed as the person responsible for the environment.

#### Committees, advisory bodies of the Board of Directors and specialised functions

The Board of Directors may establish advisory committees, to which it can delegate tasks as well as its decision-making and approval powers in certain areas. Committees are established via a resolution that must contain the date of the committee's establishment, its competences, number of members, composition, designation of the chairman from the committee members and other particulars determined by the Committees' Statute. At any time, the Board of Directors may, by resolution, change committee's competences, its composition, or disband the committee. During 2017, the Bank had the following committees:

##### Assets and Liabilities Committee (ALCO)

The committee assesses and approves the management and control process for the Bank's financial flows and its asset and liability structure to achieve an optimal balance between the Bank's profitability and its exposure to market risks. It evaluates the Bank's current position in terms of liquidity, market risks, capital adequacy and fulfilment of the planned balance sheet structure and it determines the securities portfolio strategy. The competences of the Committee also include the Bank's liquidity risk management. To this end, the Committee has established a separate advisory committee for operating liquidity management.

##### Operating Liquidity Management Committee

The Committee's task is to analyse and evaluate the Bank's liquidity position, and where necessary, to submit proposals to ALCO regarding liquidity management.

##### Credit Committee

The Credit Committee, in accordance with the Bank's Competence Rules and Lending Policy, approves lending business (new business, amendment of terms of already-approved business, restructuring and workout) with corporate clients, municipalities and retail clients. It does not approve loans and guarantees for persons with a special relationship to the Bank, which are approved by the Board of Directors.

##### Product Pricing Committee

The Product Pricing Committee sets the prices at which the Bank and its subsidiaries sell products to customers. It approves the Bank's product pricing strategy (interest and fees), receives information on developments in the structure of the Bank's products and subsidiaries' products together with their market position.

##### Business Committee

The Committee analyses the business results and adopts measures to ensure that the business plan of the Bank is fulfilled. It ensures the

implementation of the marketing strategy of the group, the Bank and its subsidiaries. It approves the annual marketing communication plan and its individual campaigns; it allocates costs to campaigns and evaluates their effectiveness. It also considers issues relating to digitalisation of the Bank and electronic sales channels.

#### **Cost Committee**

The Committee's role is to make recommendations to the Board of Directors on how to keep costs in line with the approved business plan. The Committee analyses opportunities for cost savings while supporting business activities, monitors the implementation of the cost-saving strategy as well as the responsibility of gestors for budget allocation to the individual bank units, and keeping costs at or below the level of the business plan. It also considers analyses and suggestions for cost optimisation.

#### **Operational Risk & Compliance Committee (ORCO)**

The ORCO Committee defines the strategy and processes for operational risk management and sets the degree of acceptability and levels of tolerance for operational risk. It sets measures for reducing or mitigating operational risk, including compliance risk. It defines procedures and strategy for reducing or mitigating money laundering risk, and measures for reducing the number of frauds and for mitigating their impact.

#### **Risk Management Committee**

The Committee's responsibility is to maintain an effective risk management system, to monitor and implement the risk management strategy and procedures pursuant to § 27(1) of the Banks Act. Based on regular review of its effectiveness and adequacy, the Committee proposes adjustments to the risk management system, taking account of the Bank's ability to bear risk in a changing economic environment. It approves changes to the IRB approach as defined by the NBS, as well as internal models in the risk management process, ICAAP principles, including the RAS methodology and stress testing, and it ensures that ICAAP principles are implemented in the Bank's management and its business objectives. The committee coordinates the preparation of scenarios for comprehensive stress testing and approves the scenarios, taking into consideration all material types of risk, including credit, market, operational and liquidity risk, and their evaluation. The Committee creates support and provides information to the Board of Directors and Supervisory Board concerning risk identification, analysis, monitoring reporting and management.

#### **Crisis Committee**

The Committee's role is to assess the situation in the event of an impending crisis and to manage the Bank's procedures at a time of crisis. The Crisis Committee takes decisions and determines responsibilities in a time of crisis. Its task is to regularly monitor and evaluate the situation, to coordinate communication activities and to manage the Bank's procedures for stabilising and calming the situation.

#### **Client Experience Management Committee**

The Committee's task is to monitor and evaluate indices and key parameters of customer satisfaction. The Committee develops concepts for managing and measuring the quality of the client experience and identifies key problems and areas with a major impact on clients' experience. Moreover, it regularly monitors their development and proposes specific measures for raising the quality of services and improving clients' experience/customer satisfaction in line with the company's strategic objectives.

## **Specialised functions**

The Board of Directors, in accordance with the defined applicable legislation, appoints persons to bear responsibility for specific areas and activities. Slovenská sporiteľňa appoints responsible persons for the following specific functions:

**Compliance Officer** – ensures the fulfilment of tasks under the programme of Slovenská sporiteľňa's own activity against money laundering and terrorist financing. The compliance officer reports directly to the member of the Bank's Board of Directors responsible for risk management. In the absence of the Compliance Officer, the responsibilities and competences are taken over by the designated Deputy Compliance Officer.

**Data Privacy Officer** – assesses, prior to the processing of personal data at Slovenská sporiteľňa, whether there is any potential danger of infringement of data subjects' rights and freedoms. The responsibilities and competences of this officer are detailed in the guideline "Ensuring Personal Data Privacy".

**Persons responsible for specific areas in financial intermediation** – they monitor compliance with the Act on Financial Intermediation and Financial Advice, especially in deposit taking, lending, insurance and reinsurance.

**Persons responsible for MiFID (Markets in Financial Instruments Directive)** – they monitor and evaluate the effectiveness of measures and procedures to ensure the Bank's provision of investment services complies with its obligations as a securities dealer under the Securities Act. The responsibility is divided into two areas. The first one includes organisation, control and reporting, and the implementation of MiFID2. The other person is responsible for the development, methodology, administration of investment products and related guidelines, and for customer care and related control activities.

**FATCA Officer** (Foreign Account Tax Compliance Act) – is responsible for the implementation of the American Foreign Account Tax Compliance Act (FATCA) and compliance with its provisions.

**BCM Officer** (Business Continuity Management) is responsible for managing the Bank's policy on operational and business continuity and the implementation of rules in this area.

**Risk Management Officer** – is responsible for the implementation of the Bank's risk management system and monitoring of its effectiveness.

**Consumer Protection Contact Person** – coordinates and implements consumer protection requirements into the Bank's systems, processes and products. They also coordinate and implement requirements from the supervisory authorities for consumer protection.

**Environment Officer** – implements the Bank's environmental blueprint and manages environmental protection at the Bank.

**Diversity Officer** – implements the Erste Group's rules and principles on diversity at the local level; responsible also for local initiatives promoting diversity and solutions for diversity and inclusion.

**Competition Officer** – provides for and coordinates the Bank's activities relating to the protection of competition and compliance

with fair competition rules including rules on anti-competitive conduct and prohibited agreements.

**Safeguarding Officer** – responsible for establishing and regularly reviewing measures and procedures for the protection of clients' funds and financial instruments, their separation and proper record keeping, including prevention of their unauthorised use; as well as responsible for compliance with related requirements under the act on securities and investment services and the MiFID2.

## Supervisory and other board memberships of members of the Board of Directors

The Banks Act regulates the holding of functions in the management and supervisory bodies of other companies by members of a statutory body. In 2017, members of the Board of Directors of Slovenská sporiteľňa acted in statutory and similar bodies of Slovak companies or interest groups in accordance with the Banks Act, as follows:

| Board member                   | Area of competence                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Štefan Máj (chairman)          | Member of the Presidium of the Slovak Banking Association (until 31.12.2017), deputy chairman of the Deposit Protection Fund Council (until 31.12.2017), chairman of the Supervisory Board in LANED a.s. and Realitná spoločnosť Slovenskej sporiteľne, a.s. (until 31.12.2017), chairman of the Board of Trustees of Slovenská sporiteľňa Foundation, director of Procurement Services SK, s.r.o. (until 21.12.2017), member of Supervisory Board of Prvá stavebná sporiteľňa, a.s. |
| Peter Krutíl (deputy chairman) | member of the Board of Trustees of the Slovenská sporiteľňa Foundation, executive of Procurement Services SK, s.r.o. (from 22.12.2017)                                                                                                                                                                                                                                                                                                                                               |
| Zdeněk Románek                 | member of the Supervisory Board of Realitná spoločnosť Slovenskej sporiteľne                                                                                                                                                                                                                                                                                                                                                                                                         |
| Alexandra Habeler-Drabek       | External member of the Board of Directors of Erste Bank Hungary, member of the Board of Directors of the Slovak-Austrian Chamber of Commerce                                                                                                                                                                                                                                                                                                                                         |
| Richard Chomist                | Did not hold any function in the management and supervisory bodies of other companies                                                                                                                                                                                                                                                                                                                                                                                                |

## Remuneration policy and principles for the members of the Board of Directors and Supervisory Board

In remuneration of members of the statutory body and selected categories of employees Slovenská sporiteľňa proceeds in accordance with the Banks Act and directives of the European Parliament and of the Council on supervision of remuneration principles in banks, such as CRD IV (Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms).

The remuneration policy takes account of the principles and requirements of EU legislation for limiting risk resulting from the motivation of persons who could have a material effect on a Bank's activity and risk profile. Rules adopted by the Bank in the field of remuneration for specific groups of employees are drawn up with

regard to the Bank's activity, its risk profile and the materiality of the impact that individual categories of employees have on its risk profile. Based on evaluation of qualitative and quantitative criteria, the members of the statutory body and the Supervisory Board have been identified as persons having a material impact on the Bank's risk profile. Because the members of the Board of Directors and the Supervisory Board have been identified as such persons, the basic principles and strategy for their remuneration are approved by the Supervisory Board's Remuneration Committee, which also monitors their implementation.

The Supervisory Board is responsible for adopting and maintaining the remuneration policy, and oversees its implementation with a view to ensuring its proper functioning. It may delegate its responsibilities for remuneration to the Remuneration Committee or, conversely, it may at any time withdraw, in whole or in part, the Remuneration Committee's responsibilities in matters of remuneration. The Remuneration Committee cannot be given competence to approve the variable remuneration of members of the Board of Directors or to approve payments related to the early termination of an employment contract or any other relationship with members of the Board of Directors.

Members of the Remuneration Committee are actively involved in the design of remuneration policies and models. Their principal tasks include setting the remuneration strategy for executive management, for risk takers and the heads of control units, ex-post and ex-ante information on material changes in variable remuneration schemes, and approving the variable remuneration model and practices for all employees (for example, approving conditions for bonus payments, instrument types, the balance of fixed and variable remuneration components, and performance indicators for members of the Board of Directors).

In accordance with statutory requirements and rules, as well as methodology adopted by the Erste Group, remuneration is divided into 2 parts - fixed and variable. The variable remuneration component may reach at most 100% of the fixed remuneration component. Any payment of a variable remuneration component exceeding 100% of the fixed remuneration component must be approved by the Remuneration Committee and subsequently by the Bank's Supervisory Board.

Slovenská sporiteľňa has two different schemes for paying remuneration to members of the Board of Directors. In the first scheme, a 3-year deferment is applied to 60% of the awarded variable remuneration component (i.e. the deferred part) in the form of investment securities or certificates. A further 40% share of the awarded variable remuneration component is divided into two equal parts, one of which is payable in cash and the other in the form of investment certificates maturing after one year. In the second scheme, a 3-year deferment in the form of certificates is applied to 40% of the variable remuneration component and the remaining 60% is divided into two equal parts, one of which is payable in cash and the other in the form of investment certificates maturing after one year.

Erste Group's remuneration policy stipulates that Bank employees who are members of the Supervisory Board in other Erste Group companies are not entitled to remuneration for their Supervisory Board functions.

Payment of a variable remuneration component depends on fulfilment of predetermined criteria. Individual remuneration is



based on a combination of the assessment of individual work performance and evaluation of the Bank's overall results. Targets are set in the risk management system so that in the event of their non-fulfilment, the variable portion of total remuneration for the period evaluated will be decreased, or potentially not paid. Payment of the variable remuneration component is subject to the conditions of zero tolerance in the event of conviction for a committing a criminal act related to performance of work function, fraudulent conduct, conduct contrary to the Bank's guidelines or violation of duties arising from legislation. The Bank also has a principle in place that no insurance or hedging strategy may be applied in connection with remuneration or responsibility that could reduce the impact of remuneration principles focused on risk.

Implementation of remuneration principles is subject to annual review by the Internal Audit unit in Slovenská sporiteľňa. The Internal Audit review for 2017 did not identify any shortcomings in the procedure and rules for calculating and awarding the variable component of total remuneration at Slovenská sporiteľňa. These rules and procedures are in accordance with requirements arising under the Banks Act no. 483/2001 and Erste Group's internal rules.

## Activities of the Board of Directors in 2017

The Board of Directors held 47 meetings in 2017. Two meetings took place outside the company's headquarters. One vote was taken using the per rollam procedure outside the meetings. The Board of Directors regularly discussed the Bank's financial results. It dealt with control activity and security policy obligations either by considering reports drawn up by the company's internal audit or by discussing reports on compliance and evaluation of the programme of own activity against money laundering and terrorism financing. Particular attention was paid to risk management, credit portfolio analyses, and monitoring of customer behaviour to protect shareholders' and clients' funds. In order to streamline workflows, the Board of Directors also decided to make changes to the company's organisational structure and approved projects and strategic programmes focused on change management. Changes in the legislative environment and regulatory requirements were reflected also in decisions made by the Board of Directors concerning consumer protection, business conditions and product policy, an update to the programme of own activity against money laundering and terrorism financing, and the adoption of the environmental protection policy. Strategic decisions on investments in information technology were implemented through projects to develop services for clients, communication and sales channels, digital technologies and company culture and values.

## SHAREHOLDER RIGHTS, KEY FUNCTIONS OF OWNERSHIP AND SHARE CAPITAL STRUCTURE

Shares forming the company's share capital may be issued only as registered book-entry shares. Changes to their form or type are forbidden by law. The company is a private joint-stock company. The Bank's share capital is €212 000 000. It is divided into 212 000 registered book-entry shares. The par value of one share is €1,000. The shares have not been admitted for trading on any regulated market. The shares are registered in the Central Securities Depository of the Slovak Republic in accordance with applicable legislation.

Shares carry the right to participate in the management, profit and liquidation balance, and voting rights. The securities forming the share capital are transferable without restrictions.

As at 31 December 2017, a qualified participation of 100% in the Bank's share capital is held by Erste Group Bank AG, registered office Am Belvedere 1, 1010 Vienna, Austria.

The company applies principles of equitable treatment of shareholders in a manner appropriate to the fact that the Bank has a sole shareholder. The voting rights of the sole shareholder are not limited and the management of Slovenská sporiteľňa is not aware of the existence of any agreement that could restrict transferability of securities or restrict voting rights. As at the date of writing this report, Slovenská sporiteľňa has not issued any employee shares or shares with special control rights. In 2017, Slovenská sporiteľňa did not acquire any own shares, interim shares or participating interests or shares; nor does it acquire any interim shares or participating interests in its parent accounting entity pursuant to § 22 of the Accounting Act. Any decision to increase or decrease the Bank's share capital, to issue or redeem shares lies in the direct responsibility of the General Assembly. The shareholder is entitled to participate at the General Assembly, to vote, to make proposals and to request information and explanations concerning the company's affairs, or the affairs of entities controlled by the company that relate to the subject of discussion of the General Assembly. The shareholder also has the right to a share in the company's profit (dividend), which the General Assembly determines for distribution based on the company's profit. The shareholder also has the right to decide on the payment of board members' fees for members of the Supervisory Board in the proposal for profit distribution. In accordance with the Articles, the shareholder has the right to appoint and to dismiss members of the Supervisory Board, other than those members elected by employees. The Bank provides regular information to the shareholder in annual, half-yearly and quarterly reports submitted to the regulatory authority so that the shareholder is sufficiently informed about the company's state and the state of its investment.

The company is not aware of any significant agreements, to which the Bank is a party, and which take effect, are amended or cease to be valid because of a change in control of the Bank that would occur in connection with a takeover bid.

The Bank's relations with members of its bodies and its employees, regarding the end of their tenure or termination of employment, are governed by the Labour Code, the Banks Act and the Commercial Code.

Slovenská sporiteľňa does not finance any in-house research and development. The Bank has prepared an environmental blueprint and adopted an environmental policy. The specific programmes for environmental protection and for minimising negative impacts on the environment are in line with standard STN EN ISO 14001:2015. As stipulated by the rules and principles Erste Group Code of Conduct, environmental criteria are taken into account when developing new bank products and services.

List of companies included in the consolidated financial statements as at 31 December 2017:

- Služby SLSP, s. r. o., Tomášikova 48, 832 01 Bratislava, IČO: 48 247 677
- Realitná spoločnosť Slovenskej sporiteľne, a.s., Tomášikova 48, 832 10 Bratislava, IČO: 36 725 234

- LANED, a.s., Tomášikova 48, 832 71 Bratislava, IČO: 35 918 918
- Procurement Services SK, s.r.o., Tomášikova 48, 832 75 Bratislava, IČO: 35 918 918 IČO: 36 721 972
- Slovak Banking Credit Bureau, s.r.o., Mlynské nivy 14, 821 09 Bratislava, IČO: 35 869 810
- Holding Card Service, s.r.o., Olbrachtova 1929/62, 140 00 Praha 4, Česká republika, IČO: 04 5628 61
- Prvá stavebná sporiteľňa, a. s. , Bajkalská 30, 829 48 Bratislava, IČO: 31 335 004

In accordance with a contract with Erste Group Bank AG, the Bank acts on behalf of its parent company, which holds 25.02 % shares in Prvá stavebná sporiteľňa, a.s.

## STAKEHOLDERS' RIGHTS, INFORMATION DISCLOSURE AND TRANSPARENCY

As the largest bank in the Slovak financial market, Slovenská sporiteľňa fully recognises the importance and degree of social responsibility that it has. A long-term interest of Slovenská sporiteľňa, which is reflected in its strategy and values, is that of delivering benefit to clients, the shareholder, employees and society as a whole. The Bank prepares both financial and business plans with all of these stakeholders in mind. It applies the fundamental principle of effective and responsible corporate governance as well as the principles of transparency and information disclosure at all levels and in all relations with its shareholder, customers and staff. The Bank strictly observes compliance with legal regulations and corporate governance principles. It regularly briefs its shareholder and investors of the parent company on all important information on its business, financial and operating results, and other important events. It informs its customers and the public of its financial results and strategic priorities via press conferences and press releases, which are also available on the Bank's website. All information is prepared and disclosed in accordance with standards for accounting and disclosure of financial and non-financial information. Employees are kept informed about the Bank's strategy and results at regular meetings, regional meetings, and conferences, by means of internal communication channels, an internal journal, training programmes and management personnel. Staff may exercise their right to information also via their representatives on the Supervisory Board as well as a person appointed for this purpose via a confidential telephone line and an email address to which employees can direct their complaints, suggestions and initiatives outside the established workflow and hierarchy. The clients have direct access to an independent ombudsman, who deals with their submissions or complaints on a case-by-case basis. The Bank has a procedure for resolving clients' complaints and submissions that ensures their fair, objective and timely investigation in accordance with legal requirements. The banks' relations with related parties are also in accordance with the law. The approval of transactions with related parties is set aside for the Board of Directors; where a related party includes a member of the statutory body, approval falls to the Supervisory Board.

# Corporate Social Responsibility

- **In 2017 Slovenská sporiteľňa distributed nearly €1.3 million in direct support while further €1.35 million, as investment in public interest projects through partnerships and grant programmes, were provided by Slovenská sporiteľňa Foundation**
- **The main areas of support remained culture, financial education and sport**
- **The Bank continues to support the voluntary activities of its employees**
- **The Bank is continuing to develop its programme for start-ups and non-profit organisations**
- **Slovenská sporiteľňa remains a “green bank”**

## **The most important areas of support are culture, financial education and sport**

The Bank's social responsibility strategy is based on its traditional values and also reflects the values of the entire Erste Group. Core principles include the cultivation of long-term partnerships and support for meaningful projects covering all the regions of Slovakia and every level of society. The Bank often involves local communities and its own staff in its decision-making processes. In 2017 Slovenská sporiteľňa provided direct support to 190 projects worth €1.29 million.

Owing to the Bank's most important cultural partnerships people could visit such outstanding music festivals as the Bratislava Jazz Days, Viva Musica, Pohoda and Konvergencie and also benefit from cooperation with some of Slovakia's top theatres (Studio L+S, the Andrej Bagar Theatre in Nitra, the Slovak Chamber Theatre in Martin and the State Theatre in Košice). Innovations for 2017 included the first edition of a multi-genre Tatra Flowers festival in the High Tatras and a partnership with the popular music project for children under the name Spievankovo 6.

Slovenská sporiteľňa is a longstanding supporter of sport and is involved with major and well established Slovak sporting events. In 2017 the Bank stood by the Slovak national football team, the Slovak Olympic team and popular running events: the National Run Devín - Bratislava and the Košice International Peace Marathon in Košice. The popular cycling project for children, Peter Sagan's Kids Tour, once again visited ten Slovak towns.

Another of the Bank's priorities for corporate social responsibility is promoting financial literacy starting already at primary school age. Although this is an area in which primarily the SLSP Foundation operates, the Bank continued providing direct support in 2017 for projects developed in cooperation with Junior Chamber International Slovakia – a series of university lectures Ideas Transformed into Success and the Students' Business Prize.

The Bank strongly supports the development of a healthy civil society. It is one of the founder members of the Fund for a Transparent Slovakia and a partner for prestigious awards in the fields of journalism (Novinárska cena) and justice (Judikát roka). In 2017, Slovenská sporiteľňa was also a partner of the charity campaigns Daffodil Day run by the League Against Cancer, and Children's Hour run by the Children of Slovakia Foundation. The Bank's whole branch network got involved in the collections.

## **Activities of the Slovenská sporiteľňa Foundation in 2017**

In 2017, the Foundation supported public interest projects and

initiatives aimed at achieving qualitative change in education, social assistance, culture, sport, health protection, and environmental protection and improvement. It supported 267 projects with funds amounting to €1.35 million.

It continued to provide systematic support for education through long-term projects such as Teach for Slovakia (Manageria) and the Social Impact Award (Rozbehni sa!). Another focus of the Foundation was a deepening of financial literacy through several projects including the ongoing project Know your Money run by the Children of Slovakia Foundation, and in 2017 it began working with Junior Achievement Slovakia on the project More than Money.

The Foundation contributed to a better life in the regions through its grant schemes Municipalities Closer to You and Innovative Primary School. Support also continued for Projekt DOM.ov, which is a project to raise financial awareness in Roma communities in eastern Slovakia and to help residents build their own homes.

Social assistance and support for the disadvantaged reached every part of the country. The Foundation became a general partner of the Daffodil Day campaign run by the League against Cancer and supported the civic association Vagus – the café Dobré&Dobré (Well & Good), the civic association Návrat (Return), the Natalia Rehabilitation Centre operated by the Helping Others Foundation for children with cerebral palsy, and many others.

The Foundation also helped the Ekopolis Foundation to run the Tree of the Year poll in 2017. It continued to support urban beekeeping with hives on the roof of Slovenská sporiteľňa's head office managed in collaboration with the Živica non-profit organisation.

Total support for 56 partner projects in 2017 amounted to over €620 000. The Foundation's Open Grant Programme supported 65 projects with total funding of more than €224 000.

### **Support Your School with an Idea – a grant scheme for university students**

In its fifth year, this grant scheme run by the Foundation awarded nearly €30 000 to 10 student projects. The projects were aimed at improving the quality of technical equipment for student media, support for a model conference and university sports days and the creation of recreation areas for students.

### **Grant scheme – Football is the Game**

2017 was the 8th year of this grant scheme aimed at improving the activities of football clubs for children and young people. The results were decided by over 75 000 SMS votes. The three clubs with the largest numbers of votes were: Kolárovo Football Club, Švošov Village Sports Club and Baník Ľubietová Football Club. The Foundation awarded a total of €46 559 to 16 projects.

### **Employee Grant Scheme – Euro to Euro**

The Foundation ran the 12th edition of the employee grant scheme, Euro to Euro, which aims to support smaller public interest projects on the community level. In the past year, total amount of over €57 000 was distributed to 33 projects in schools, kindergartens, sport and dance clubs, and other free-time organisations. Bank employees participated in the implementation of the projects as volunteers.

### **Grant scheme – Municipalities Closer to You**

In the 5th year of this grant scheme, the Foundation supported 29 projects of towns and villages throughout Slovakia with



funds totalling more than €100 000. Project aims included the renovation of locally significant cultural heritage monuments, nature conservation in villages and support for local libraries. Supported projects included the restoration of a Baroque fountain in the village of Hronsek, the construction of an educational trail in Dolné Otrokovce and a fairy-tale picnic dedicated to literature in Senec.

#### **Grant scheme – Innovative Primary School 2017**

In the 1st year of this grant scheme, with funds totalling more than €64,000, the Foundation supported 24 projects of primary schools throughout Slovakia. The projects were aimed at promoting two areas – innovative and financial education. For example, the project Let's Cook a Fairy Tale about Beautiful Coexistence in the Primary School in Hľpa helped children to plan, organise and develop their work with technology. In the Angyalova Street Primary School in Kremnica, the Foundation supported the project Discover the World, Discover Yourself designed to teach children about nature.

#### **Grant scheme – Help us Help 2017**

In the 2nd year of this grant scheme, the Foundation supported 20 projects from every part of Slovakia with funds amounting to over €80 000. The aim of the grant scheme is to support meaningful public-interest projects combined with the voluntary activities of Bank employees and to strengthen their impact in the area of education and social assistance on the local community level.

#### **Construction of multifunctional playgrounds**

In 2017 the Foundation contributed funding for the construction of additional two multifunctional playgrounds – at the P.O. Hviezdoslav Primary School in Trstená, and at the external grounds of the L. Novomeský Street Primary School in Trenčín.

Since 2010 the Foundation has invested around €1.45 million in the construction of 28 playgrounds in various parts of Slovakia. Each of the playgrounds is situated close to a school and is used mainly by pupils. Outside teaching hours, the playgrounds are open to the public all year round.

#### **International project “aces – act local”**

In 2017 the Foundation worked closely with the Interkulturelles Zentrum in Vienna on the international project aces – act local. This is an educational initiative of the Austrian ERSTE Foundation aimed at schools as key institutions with the potential to cultivate activism, volunteering and social engagement among young people in their region. The project awarded micro-grants to 40 schools in 15 countries of central and south-eastern Europe to implement local projects promoting social inclusion. In September a 4-day international training academy took place in Senec attended by 80 students and teachers from participating schools.

#### **Bank seeks to help groups having difficult access to bank services**

In 2017, Slovenská sporiteľňa continued to develop the “Social Bank” project. Its aim is to provide banking services, financial education and advice to groups who would otherwise not have access to them. The Bank focused on start-up entrepreneurs, profit organisations and low-income groups. In so doing Slovenská sporiteľňa wants to contribute to solving social problems such as poverty, low financial literacy or obstacles for start-up entrepreneurs. The Bank wants activities to have the

greatest possible impact, to be sustainable and, from the Bank's aspect, without profit or loss.

Slovenská sporiteľňa wants to make it easier for start-up entrepreneurs to set up their businesses and to create an economically sustainable model providing work for the entrepreneur and possibly also others. The Bank supports start-up entrepreneurs by providing them training, banking services, including financing, which would otherwise be hard to come by for them, as well as mentoring. The Bank believes that advice for start-up entrepreneurs significantly raises the possibility of their success in business.

In 2017, the Bank financed a variety of projects throughout Slovakia via loan products for start-ups, for example, a car service centre, IT services and grocery stores. The offer of training was taken up by more than 3 000 people. The Bank helped numerous start-up entrepreneurs with business skills, in other cases it did not recommend continuing in their business plan. Some entrepreneurs were convinced that it is better to improve the efficiency of existing activities than expand their business into new areas.

Besides support for start-up entrepreneurs, Slovenská sporiteľňa focuses also on non-profit organisations, to which it also offers training, banking services, including financing and mentoring. It wants to support their growth, their positive impact on society and help them find operating models that are economically sustainable.

In the retail segment, the Bank seeks to help people who have repayment problems due to objective reasons, i.e. they have experienced difficult life situations, such as a death in the family, illness of a partner or children, etc.

The Bank got involved in the activities of the non-profit organisation DOM.ov, in the preparation of self-help house construction in selected Roma localities and in line with the effort of Slovenská sporiteľňa Foundation with focus on financial education it helped involved families finance their new housing via microloans.

#### **The Bank continues to build on its environmental policy**

A responsible and sustainable approach to the management of natural resources is at the heart of Slovenská sporiteľňa's environmental policy. Care for the environment and proactive management of climate change were among the key areas in the management of environmental activities in 2017. Slovenská sporiteľňa is certified under the standard EN ISO 14001:2004 Environmental Management Systems. Its certification was renewed in 2017 applying the updated European standard EN ISO 14001:2015. The assessment found no deviations from the standard. Measures were taken to achieve sustainable reductions in greenhouse emissions and to optimise energy consumption so as to reduce electricity consumption and CO2 emissions by more than 10% compared to the previous year. Major factors that contributed to the reduction included the upgrading of server technology with more cost-effective solutions, the replacement of a significant part of the lighting in the headquarters building with LED bulbs and the separation and recycling of returned credit cards. Raising employees' awareness of the need for

environmental protection and their knowledge in this area is another key part of the environmental policy. The Bank has added a presentation on environmental issues to new employees' orientation and all employees have the opportunity to take part in theoretical and practical training on eco-friendly driving. For this purpose, it has also added two electric vehicles to its fleet. After previous year installation of beehives on the roof of Slovenská sporiteľňa's headquarters in Bratislava, its employees planted field and meadow flowers around the building as "feed zones" for the bees in 2017.

## Objectives for 2018

## Objectives for 2018

In 2018, Slovenská sporiteľňa wants to confirm its position as leader of the retail segment while also being the “bank of first choice” for corporate clients. The Bank aims to offer customers solutions that make their lives easier. The Bank will broaden its digital offerings so that individuals and firms can purchase or use its services also outside the branch network as they prefer, and so that its services are easier to understand and more user-friendly. Alongside digitalisation, the Bank is upgrading its branch network. Slovenská sporiteľňa wishes clients to have a positive experience in each contact with the Bank.

The period of low interest rates continues to highlight the need to use resources efficiently, and in 2018 the Bank will further focus on optimising its banking processes and activities. Slovenská sporiteľňa wants to keep its operating cost-to-income ratio at a low level. The Bank’s decisions will take into account the acceptable degree of risk.

Slovenská sporiteľňa wants to continue contributing to the prosperity of Slovak society, not only through its business activities, but also through the activities of the Social Bank and the Slovenská sporiteľňa Foundation.

## Forecast economic and financial situation of Slovenská sporiteľňa

In 2018, Slovenská sporiteľňa expects year-on-year growth of its balance sheet by 9%, due mainly to increased transaction volumes with clients, both in loans granted and in deposits taken. The expected overall increase in business with clients should also contribute to the market share growth and thereby to the further strengthening of Slovenská sporiteľňa’s position as a leader in the domestic banking market. The planned growth in lending should be financed mostly through the deposits received, and also by way of long-term debt security issues. The loan-to-deposit ratio is projected at approximately 100% at the end of 2018, creating positive conditions for maintaining the bank’s stability from liquidity and funding perspective. Regarding capital adequacy, based on the forecast, the bank will not just meet but comfortably surpass all the indicators and parameters required by the regulator under the CRR/CRD regulation and new IFRS9 methodology that enters into full effect from 1 January 2018.

Slovenská sporiteľňa expects a positive net profit at the end of 2018, though slightly lower than a year earlier, due mainly to a continued decline in net interest income. This decline will come in consequence of strengthening competition, stricter regulation and low market interest rates. All these effects cannot be completely offset by an increase in volumes. The pace of decline in net interest income will, however, slow down significantly compared to 2017. On the other hand, the bank expects a slight increase in fees and commission income, particularly through increased revenues from transactions and insurance. Development in trading income may be highly variable, since so many market factors are at work. Net operating income should decrease slightly over the year, chiefly due to the lower net interest income. The bank expects a slight growth in operating expenses in 2018, connected primarily to the growth in personal expenses. Slovenská sporiteľňa’s cost management efficiency is confirmed by its cost-to-income ratio, which is projected at a level of around 50% (excluding the levy to the Deposit Protection Fund).

The main risks and uncertainties facing Slovenská sporiteľňa arise from (i) legislative changes in Slovakia and the European Union in the field of banking, including changes related to tighter balance sheet requirements, (ii) credit conditions in an environment of continuing low interest rates and (iii) the impact of global economic developments on the Slovak economy.

No special events of particular significance occurred after the end of accounting period covered by this annual report.



# Statement of Responsible Persons

The responsible persons of Slovenská sporiteľňa, a.s., with its registered office at Tomášikova 48, 832 37 Bratislava, entered in the Commercial Register of District Court Bratislava I, section: Sa, file no.: 601/B, corporate registration no.: 00151653: Ing. Peter Krutil, Chairman of the Board of Directors and CEO, and Pavel Cetkovský, Member of the Board and Deputy CEO, to the best of their knowledge hereby declare that the financial statements contained herein give a true and fair representation of assets, liabilities, financial situation and results of Slovenská sporiteľňa and companies consolidated by Slovenská sporiteľňa, and that this Corporate Governance Report and Annual Report represent a true and fair view of the development and results of Slovenská sporiteľňa's business operations and position, including the companies included in its consolidation for 2017, together with a description of the key risks and uncertainties it faces.

# Supervisory Board Report

The Supervisory Board of Slovenská sporiteľňa, in performing its activities over the course of 2017, was governed by statutory provisions applicable in the Slovak Republic. It fulfilled tasks arising from the Bank's Articles, took decisions on matters falling within its competence pursuant to the Bank's competence rules, and was governed by the Supervisory Board's internal rules of procedure.

In 2017, three ordinary meetings of the Supervisory Board were held, and seven votes were conducted per rollam. The Supervisory Board discussed and adopted an opinion regarding the individual and consolidated financial statements, the proposal for profit distribution and the Board of Directors' report on the company's business activities and assets.

Over the year, it paid due attention to monitoring the Bank's position in risk management and controlling the security and effectiveness of the risk management system through regular quarterly reports submitted by the Board of Directors. The Supervisory Board discussed and approved the risk management report, which was submitted by the risk management officer in accordance with the law.

Members of the Supervisory Board were regularly briefed by the Bank's Board of Directors on its business activity, the implementation of its business plan, the balance of the company's assets, implementation of the Bank's major projects, equity investments, sale of a part of the business and about other matters related to the company's activities and development in pursuing its licensed banking activities. Within its competence, it approved the internal audit strategy and plans falling within the purview of the Supervisory Board under the Bank's Organisational Code. Pursuant to the amendment to Act no. 483/2001 Coll. on banks, the Supervisory Board also examined compliance with the remuneration principles and implementation of the remuneration of identified individuals that have a significant impact on the Bank's risk.

In 2017 there were several changes in the membership of the Supervisory Board. Ľudovít Ódor and Tatiana Knošková became members of the Supervisory Board as independent members, with effect from 1 January 2017 and 25 May 2017 respectively. Gernot Mittendorfer and Jan Homan were re-elected as members of the Supervisory Board with effect from 7 August 2017.

In 2017, the Supervisory Board worked with the support of advisory committees, namely the audit, credit, remuneration and nomination committees, which are established and operating according to their own statutes. In 2017, membership of the committees of the Supervisory Board was adjusted in line with the changes in membership of the Supervisory Board.

Pursuant to Act no. 423/2015 on statutory audit and Act no. 431/2002 Coll. on accounting, as amended, the Audit Committee of the Supervisory Board assessed reports concerning internal control and regularly familiarised itself with the level and effectiveness of internal audit. In accordance with statutory requirements, the committee took responsibility for the selection procedure for a statutory auditor and recommended that the General Meeting approve PricewaterhouseCoopers Slovensko, s.r.o. to conduct the statutory audit. Within this process the Audit Committee set a deadline for the appointed statutory auditor to submit an affidavit regarding its independence. The committee held discussions with representatives of the company's external

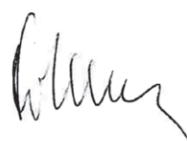
auditor on the annual financial statements, including the external auditor's opinion and the auditor's recommendations contained in the letter to the management. It briefed the Bank's Supervisory Board on the outcome of the statutory audit and of the procedures through which the statutory audit contributed to the integrity of the financial statements. Another important part of the agenda comprised reports on the Bank's activities in the area of compliance and operational risk management, and reports on implementation of the programme of own activity against money laundering and terrorist financing. The committee was also informed of on-site inspections undertaken at the Bank by regulatory authorities. In the framework of its competence, the committee reviewed the suitability of provision of non-audit services and services provided by the statutory auditor and approved the procurement of non-audit services from licensed auditing companies.

The Credit Committee of the Supervisory Board decides on certain credit transactions on an ad hoc basis in accordance with the Bank's Competence Code. It did not assess any business case in 2017.

The Remuneration Committee of the Supervisory Board considered, approved and inspected the remuneration principles for members of the Board of Directors as well as selected categories of employees having a specific impact on the Bank's risk. The primary focus was on the balancing of all risks related to the remuneration system so as to ensure long-term prudent management of the company, including its liquidity, capital, etc. It also approved the key banking objectives and KPIs for board members and their evaluation for the preceding accounting period. It approved the updated list of persons having a specific impact on the Bank's risk. In 2017 the Committee held three ordinary meetings and two per rollam votes.

The Supervisory Board established a Nomination Committee as its advisory body in fulfilling its responsibilities relating to the nomination of new members of the Bank's Board of Directors. In 2017 it recommended the Supervisory Board of Slovenská sporiteľňa to approve the new Chairman of the Board of Directors with effect from 1 January 2018, and the nomination of Pavel Cetkovský as a member of the Board of Directors prior to his approval by the European Central Bank.

The Supervisory Board discussed the audit of the consolidated and individual balance sheet of Slovenská sporiteľňa as well as the related profit & loss statement as at 31 December 2017. The audit was carried out and verified by PricewaterhouseCoopers Slovensko, s.r.o. in accordance with International Financial Reporting Standards as adopted by the EU. It confirmed that the financial statements give a true and fair view of the Bank's financial situation as at 31 December 2017 in all material regards and that it has no objections to them. Consequently, the Supervisory Board recommended the General Meeting to approve the financial statements for 2017, including the proposal for profit distribution.



**Gernot Mittendorfer**  
Chairman

**Slovenská sporiteľňa, a. s.**

**Consolidated Financial Statements  
prepared in accordance with International  
Financial Reporting Standards  
as adopted by the European Union  
for the year ended 31 December 2017**





## Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of  
Slovenská sporiteľňa, a.s.

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slovenská sporiteľňa, a.s. and its subsidiaries (together the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union („IFRS“).

Our opinion is consistent with our additional report to the Audit Committee.

### What we have audited

The consolidated financial statements of Slovenská sporiteľňa, a.s. and its subsidiaries comprise the following:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the consolidated financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014.

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T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, [www.pwc.com/sk](http://www.pwc.com/sk)

The firm's ID No. (IČO): 35 739 347.  
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.  
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.  
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.  
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.



## Our audit approach



### Overview

Overall group materiality is EUR 12,877 million and was estimated based on a combination of two benchmarks, total profit before tax (5%) and total equity (1%) of Slovenská sporiteľňa, a.s. on a standalone entity basis, each carrying a 50% weight.

We focused our audit work on Slovenská sporiteľňa, a.s. which is the most material consolidated entity.

Slovenská sporiteľňa, a.s. as a standalone entity represents approximately 99.8% of the Group's total assets at 31 December 2017 and 98.9% of the Group's profit for the year then ended.

The audit of the loan loss provisions estimate required our significant attention given the nature of the estimate and its significance to the consolidated financial statements.

### Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

2017 was the first year we were appointed as auditors of Slovenská sporiteľňa, a.s.. We commenced our preparation for the audit take-over already in May 2016 in order to ensure that we fulfil all the independence requirements imposed upon us as incoming auditors of the Group.

Since our appointment on 27 March 2017, we used the opportunity to meet with key members of the management of Slovenská sporiteľňa, a.s. in order to obtain understanding of current business matters and to gather information that would enable us to plan our audit. We also held hand-over meeting with the prior year auditors and reviewed their working papers in order to understand on which controls they relied and what evidence they used to support their opinion. We used our information technology specialists to map the information and control systems of Slovenská sporiteľňa, a.s. These activities facilitated planning and performing the audit.





### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

|                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Overall group materiality</b>                       | EUR 12,877 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>How we determined it</b>                            | We based the materiality on a combination of two benchmarks, profit before tax and equity of Slovenská sporiteľňa, a.s. on a standalone entity basis, each carrying 50% weight.                                                                                                                                                                                                                                                                                                                                                               |
| <b>Rationale for the materiality benchmark applied</b> | The performance of the Group is most commonly evaluated by financial statements users based on the Group's profitability. However, the Group's capital is also an important indicator for many users of the financial statements and shareholder return is commonly expressed relative to the amount of the Group's capital, that is, as a return on equity. The quantitative thresholds of approximately 5% applied to profit before tax and 1% applied to equity, respectively, are within a range set out in our internal firm's guidance. |

### **Key audit matters**

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



#### Key audit matter

#### How our audit addressed the Key audit matter

##### Loan loss provisions estimate

IFRS requires management to make judgments about the future and various items in the consolidated financial statements are also subject to estimation uncertainty. The estimates required for loan loss provisions are significant estimates, as explained in more detail in Note B in the consolidated financial statements.

The identification of loans that are deteriorating, the assessment of objective evidence of impairment, the value of collateral and the determination of the recoverable amount of loans are all inherently uncertain.

The Group recognizes portfolio provisions for loans, which are not individually significant, and a provision for impairment losses incurred but not yet reported or identified with a specific loan. This requires an accurate identification of balances that are not individually significant and grouping of loans with similar credit risk characteristics.

We focused on this area during the audit due to the significance of the amounts involved for the consolidated financial statements and also because of the nature of the judgements and assumptions that management are required to make.

Our audit approach was the following:

We verified that the Group's methodology for estimating loan loss provisions was appropriate and was being applied consistently.

We assessed and tested the design, implementation, and operating effectiveness of the controls related to the timely identification of impaired loans, and performed an independent validation of the models used by management for calculation of loan loss provisions.

We examined a sample of individually significant loan exposures, in order to test loan loss provisions calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default.

We assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Group to estimate portfolio loan loss provisions for loans that share similar credit risk characteristics.

Our audit did not lead to any material adjustments to the loan loss provisions at 31 December 2017.

#### ***Reporting on other information in the annual report***

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"), the Slovak Act on Stock Exchanges No. 429/2002 as amended and the Slovak Act on Securities and Investment Services No. 566/2001 as amended. The annual report comprises (a) the consolidated financial statements and (b) other information. Management has not prepared the annual report by the date of our audit report.

Our opinion on the consolidated financial statements does not cover the other information.

When the annual report becomes available to us, our responsibility will be to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we will also consider whether annual report includes the disclosures required by the Accounting Act, when it becomes available to us. This will include checking the consistency of the annual report with the consolidated financial statements, and whether the annual report has been prepared in accordance with the Accounting Act.

In addition, our updated report will either state that we have nothing to report in respect of the above, or will describe any material misstatements we identified in the annual report based on our knowledge and understanding of the Group and its environment, which we obtained during our audit.





### ***Responsibilities of management and those charged with governance for the consolidated financial statements***

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

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

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

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

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

As part of our audit, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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





- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

### ***Our appointment as independent auditor***

We were first appointed as auditors of Slovenská sporiteľňa, a.s. by the General Assembly on 27 March 2017. This represents a total period of uninterrupted audit service of one year.

*PricewaterhouseCoopers Slovensko, s.r.o.*  
PricewaterhouseCoopers Slovensko, s.r.o.  
SKAU licence No. 161

Bratislava, 13 February 2018

*Mgr. Martin Gallovič*  
Mgr. Martin Gallovič  
UDVA licence No. 1180



Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.



## Consolidated statement of profit or loss

for the year ended 31 December 2017

| EUR ths.                                                                                                  | Notes | 2016           | 2017           |
|-----------------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| Net interest income                                                                                       | 1     | 461 625        | 439 290        |
| Interest income                                                                                           |       | 510 538        | 471 999        |
| Interest expense                                                                                          |       | (48 913)       | (32 709)       |
| Net fee and commission income                                                                             | 2     | 121 717        | 112 708        |
| Fee and commission income                                                                                 |       | 143 617        | 135 950        |
| Fee and commission expense                                                                                |       | (21 900)       | (23 242)       |
| Dividend income                                                                                           | 3     | 1 307          | 1 086          |
| Net trading result                                                                                        | 4     | 13 468         | 13 773         |
| Result from financial assets and liabilities designated at fair value through profit or loss              | 4     | (916)          | (514)          |
| Net result from equity method investments                                                                 |       | 1 850          | 2 123          |
| Rental income from investment properties & other operating leases                                         | 5     | 881            | 325            |
| Personnel expenses                                                                                        | 6     | (137 381)      | (140 919)      |
| Other administrative expenses                                                                             | 6     | (93 744)       | (96 980)       |
| Depreciation and amortisation                                                                             | 6     | (45 594)       | (44 766)       |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 7     | 27 044         | 301            |
| Net impairment loss on financial assets                                                                   | 8     | (48 235)       | (30 074)       |
| Other operating result                                                                                    | 9     | (16 075)       | (39 794)       |
| Levies on banking activities                                                                              | 9     | (29 106)       | (30 128)       |
| <b>Pre-tax result from continuing operations</b>                                                          |       | <b>285 947</b> | <b>216 559</b> |
| Taxes on income                                                                                           | 10    | (71 381)       | (52 660)       |
| <b>Net result for the period</b>                                                                          |       | <b>214 566</b> | <b>163 899</b> |
| <b>Net result attributable to non-controlling interests</b>                                               |       | <b>22</b>      | <b>19</b>      |
| <b>Net result attributable to owners of the parent</b>                                                    |       | <b>214 544</b> | <b>163 880</b> |

### Earnings per share

|                                                 |               | 2016         | 2017       |
|-------------------------------------------------|---------------|--------------|------------|
| Net result attributable to owners of the parent | EUR THS.      | 214 544      | 163 880    |
| Number of outstanding shares                    |               | 212 000      | 212 000    |
| <b>Earnings per share</b>                       | <b>IN EUR</b> | <b>1 012</b> | <b>773</b> |

Diluted earnings per share equal to the disclosed basic earnings per share.

The notes on pages 79 to 187 are an integral part of these financial statements.

## Consolidated statement of other comprehensive income

for the year ended 31 December 2017

| EUR ths.                                                                    | 2016            | 2017           |
|-----------------------------------------------------------------------------|-----------------|----------------|
| <b>Net result</b>                                                           | <b>214 566</b>  | <b>163 899</b> |
| <b>Other comprehensive income</b>                                           |                 |                |
| Remeasurement of net liability of defined pension plans                     | (124)           | 174            |
| Deferred taxes relating to items that may not be reclassified               | -               | 128            |
| <b>Total</b>                                                                | <b>(124)</b>    | <b>302</b>     |
| <b>Items that may be reclassified to profit or loss</b>                     |                 |                |
| Available for sale reserve                                                  | (17 879)        | 13 769         |
| Gain/loss during the period                                                 | 9 217           | 14 101         |
| Reclassification adjustments to profit or loss                              | (27 096)        | (332)          |
| Currency translation                                                        | -               | 409            |
| Deferred taxes relating to items that may be reclassified                   | 4 993           | (2 888)        |
| Gain/loss during the period                                                 | (697)           | (2 958)        |
| Reclassification adjustments to profit or loss                              | 5 690           | 70             |
| <b>Total</b>                                                                | <b>(12 886)</b> | <b>11 291</b>  |
| <b>Total other comprehensive income</b>                                     | <b>(13 010)</b> | <b>11 593</b>  |
| <b>Total comprehensive income</b>                                           | <b>201 556</b>  | <b>175 492</b> |
| <b>Total comprehensive income attributable to non-controlling interests</b> | <b>22</b>       | <b>19</b>      |
| <b>Total comprehensive income attributable to owners of the parent</b>      | <b>201 534</b>  | <b>175 473</b> |

The notes on pages 79 to 187 are an integral part of these financial statements.



## Consolidated statement of financial position

as at 31 December 2017

| EUR ths.                                                           | Notes | 2016              | 2017              |
|--------------------------------------------------------------------|-------|-------------------|-------------------|
| <b>Assets</b>                                                      |       |                   |                   |
| Cash and cash balances                                             | 11    | 396 973           | 424 229           |
| Financial assets - held for trading                                |       | 44 814            | 36 484            |
| Derivatives                                                        | 12    | 44 814            | 36 484            |
| Financial assets - designated at fair value through profit or loss | 13    | 6 118             | 5 602             |
| Financial assets - available for sale                              | 14    | 1 063 321         | 1 020 620         |
| therof: pledged as collateral                                      | 31    | 239 423           | 191 439           |
| Financial assets - held to maturity                                | 15    | 2 640 662         | 2 644 402         |
| therof: pledged as collateral                                      | 31    | 58 764            | 59 010            |
| Loans and receivables to credit institutions                       | 16    | 89 946            | 177 616           |
| Loans and receivables to customers                                 | 17    | 10 250 469        | 11 719 733        |
| therof: pledged as collateral                                      | 31    | 1 297 728         | 1 462 588         |
| Derivatives hedge accounting                                       | 18    | 7 705             | 6 761             |
| Property and equipment                                             | 20    | 162 150           | 149 564           |
| Investment properties                                              | 20    | 2 388             | 2 031             |
| Intangible assets                                                  | 21    | 71 955            | 55 457            |
| Investments in associates                                          | 19    | 30 467            | 31 123            |
| Current tax assets                                                 | 22    | 8                 | 10 634            |
| Deferred tax assets                                                | 22    | 34 030            | 33 711            |
| Other assets                                                       | 23    | 24 368            | 25 145            |
| <b>Total assets</b>                                                |       | <b>14 825 374</b> | <b>16 343 112</b> |
| <b>Liabilities and equity</b>                                      |       |                   |                   |
| Financial liabilities - held for trading                           |       | 42 812            | 33 344            |
| Derivatives                                                        | 12    | 42 812            | 33 344            |
| Financial liabilities measured at amortised cost                   | 24    | 12 979 909        | 14 624 693        |
| Deposits from banks                                                | 24    | 278 193           | 488 564           |
| Deposits from customers                                            | 24    | 11 384 309        | 12 477 892        |
| Debt securities issued                                             | 25    | 1 317 407         | 1 567 216         |
| Other financial liabilities                                        |       | -                 | 91 021            |
| Derivatives hedge accounting                                       | 18    | 52 389            | 42 100            |
| Provisions                                                         | 26    | 22 426            | 25 067            |
| Current tax liabilities                                            | 22    | 4 013             | 1                 |
| Deferred tax liabilities                                           | 22    | 106               | -                 |
| Other liabilities                                                  | 27    | 161 615           | 82 236            |
| <b>Total liabilities</b>                                           |       | <b>13 263 270</b> | <b>14 807 441</b> |
| Equity attributable to non-controlling interests                   |       | 36                | 31                |
| Equity attributable to owners of the parent                        |       | 1 562 068         | 1 535 640         |
| Subscribed capital                                                 | 28    | 212 000           | 212 000           |
| Additional paid-in capital                                         |       | 150 000           | 150 000           |
| Retained earning and other reserves                                |       | 1 200 104         | 1 173 671         |
| <b>Total equity</b>                                                |       | <b>1 562 104</b>  | <b>1 535 671</b>  |
| <b>Total liabilities and equity</b>                                |       | <b>14 825 374</b> | <b>16 343 112</b> |

The notes on pages 79 to 187 are an integral part of these financial statements.

In the years 2017 and 2016 there were no other significant non-cash movements from investing and financing activities.

## Consolidated statement of changes in equity

for the year ended 31 December 2017

| EUR ths.                                                                    | Subscribed capital | Other capital instrumen | Legal reserve fund | Other funds   | Retained earnings | Available for sale reserve | Currency translation | Remeasur-<br>ement of net liability<br>of defined pension plans | Deferred tax    | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity     |
|-----------------------------------------------------------------------------|--------------------|-------------------------|--------------------|---------------|-------------------|----------------------------|----------------------|-----------------------------------------------------------------|-----------------|---------------------------------------------|--------------------------------------------------|------------------|
| <b>As of 31 December 2015</b>                                               | <b>212 000</b>     | <b>150 000</b>          | <b>79 795</b>      | <b>39 326</b> | <b>959 547</b>    | <b>124 182</b>             | <b>(386)</b>         | <b>(658)</b>                                                    | <b>(27 319)</b> | <b>1 536 487</b>                            | <b>2 994</b>                                     | <b>1 539 481</b> |
| Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNCS | -                  | -                       | -                  | -             | (175 510)         | -                          | -                    | -                                                               | -               | (175 510)                                   | (15)                                             | (175 525)        |
| Changes in scope of consolidation (EGIT purchase of share)                  | -                  | -                       | -                  | -             | -                 | -                          | -                    | -                                                               | -               | -                                           | (2 966)                                          | (2 966)          |
| Other changes                                                               | -                  | -                       | -                  | -             | (443)             | -                          | -                    | -                                                               | -               | (443)                                       | -                                                | (443)            |
| Total comprehensive income                                                  | -                  | -                       | -                  | -             | 214 544           | (17 879)                   | -                    | (124)                                                           | 4 993           | 201 534                                     | 22                                               | 201 556          |
| Net result for the period                                                   | -                  | -                       | -                  | -             | 214 544           | -                          | -                    | -                                                               | -               | 214 544                                     | 22                                               | 214 566          |
| Change in revaluation reserve                                               | -                  | -                       | -                  | -             | -                 | (17 879)                   | -                    | -                                                               | -               | (17 879)                                    | -                                                | (17 879)         |
| Change from remeasur-<br>ement of defined benefit plans                     | -                  | -                       | -                  | -             | -                 | -                          | -                    | (124)                                                           | -               | (124)                                       | -                                                | (124)            |
| Change in tax                                                               | -                  | -                       | -                  | -             | -                 | -                          | -                    | -                                                               | 4 993           | 4 993                                       | -                                                | 4 993            |
| <b>As of 31 December 2016</b>                                               | <b>212 000</b>     | <b>150 000</b>          | <b>79 795</b>      | <b>39 326</b> | <b>998 138</b>    | <b>106 303</b>             | <b>(386)</b>         | <b>(782)</b>                                                    | <b>(22 326)</b> | <b>1 562 068</b>                            | <b>36</b>                                        | <b>1 562 104</b> |
| <b>As of 31 December 2016</b>                                               | <b>212 000</b>     | <b>150 000</b>          | <b>79 795</b>      | <b>39 326</b> | <b>998 138</b>    | <b>106 303</b>             | <b>(386)</b>         | <b>(782)</b>                                                    | <b>(22 326)</b> | <b>1 562 068</b>                            | <b>36</b>                                        | <b>1 562 104</b> |
| Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNCS | -                  | -                       | -                  | -             | (202 195)         | -                          | -                    | -                                                               | -               | (202 195)                                   | (24)                                             | (202 219)        |
| Reclassification                                                            | -                  | -                       | -                  | (222)         | 222               | -                          | -                    | -                                                               | -               | -                                           | -                                                | -                |
| Other changes                                                               | -                  | -                       | -                  | -             | 294               | -                          | -                    | -                                                               | -               | 294                                         | -                                                | 294              |
| Total comprehensive income                                                  | -                  | -                       | -                  | -             | 163 880           | 13 769                     | 409                  | 174                                                             | (2 760)         | 175 473                                     | 19                                               | 175 492          |
| Net result for the period                                                   | -                  | -                       | -                  | -             | 163 880           | -                          | -                    | -                                                               | -               | 163 880                                     | 19                                               | 163 899          |
| Change in revaluation reserve                                               | -                  | -                       | -                  | -             | -                 | 13 769                     | -                    | -                                                               | -               | 13 769                                      | -                                                | 13 769           |
| Change in currency translation reserve                                      | -                  | -                       | -                  | -             | -                 | -                          | 409                  | -                                                               | -               | 409                                         | -                                                | 409              |
| Change from remeasurement of defined benefit plans                          | -                  | -                       | -                  | -             | -                 | -                          | -                    | 174                                                             | -               | 174                                         | -                                                | 174              |
| Change in tax                                                               | -                  | -                       | -                  | -             | -                 | -                          | -                    | -                                                               | (2 760)         | (2 760)                                     | -                                                | (2 760)          |
| <b>As of 31 December 2017</b>                                               | <b>212 000</b>     | <b>150 000</b>          | <b>79 795</b>      | <b>39 104</b> | <b>960 340</b>    | <b>120 072</b>             | <b>23</b>            | <b>(608)</b>                                                    | <b>(25 086)</b> | <b>1 535 640</b>                            | <b>31</b>                                        | <b>1 535 671</b> |

The notes on pages 79 to 187 are an integral part of these financial statements. Further details are disclosed in the note 28.

Currency translation contains changes from Euro conversion (Skk to Eur) in 2009 and the movement during the year 2017 includes impact from associate Holding Card Service, spol. s r.o., which use home currency Czk.

## Consolidated statement of cash flows

for the year ended 31 December 2017

| EUR ths.                                                                                | 2016            | 2017            |
|-----------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Profit before income taxes</b>                                                       | <b>285 947</b>  | <b>216 559</b>  |
| Adjustments for:                                                                        |                 |                 |
| Loss allowances for loans and advances, Provisions for off-balance sheet                | 46 928          | 72 834          |
| Provisions for liabilities and other liabilities                                        | 6 746           | 9 799           |
| Impairment of tangible and intangible assets net                                        | (621)           | (786)           |
| Depreciation and amortization                                                           | 45 594          | 44 766          |
| Profit/(loss) on disposal of fixed assets                                               | 723             | 3 879           |
| Transfer of interest for financing activity                                             | 17 364          | 16 098          |
| Net gains/(losses) from investing activities                                            | (111 343)       | (88 583)        |
| <b>Cash flows from operations before changes in operating assets and liabilities</b>    | <b>291 339</b>  | <b>274 565</b>  |
| (Increase)/decrease in operating assets:                                                |                 |                 |
| Minimum reserve deposits with the central bank                                          | (79 043)        | 79 276          |
| Loans and advances to financial institutions                                            | 36 354          | (118 652)       |
| Loans and advances to customers                                                         | (928 777)       | (1 542 084)     |
| Financial assets at fair value through profit or loss and securities available for sale | 138 692         | 56 986          |
| Other assets                                                                            | 5 881           | (11 257)        |
| Increase / (decrease) in operating liabilities:                                         |                 |                 |
| Amounts owed to financial institutions                                                  | (6 743)         | 210 371         |
| Amounts owed to customers                                                               | 712 773         | 1 093 583       |
| Other financial liabilities                                                             | -               | 91 021          |
| Increase/(decrease) in derivative financial instruments (net)                           | 6 091           | (10 483)        |
| Provision for liabilities and other provisions                                          | (7 732)         | (4 253)         |
| Other liabilities                                                                       | 37 867          | (71 661)        |
| <b>Net cash flows provided by / (used in) operating activities before income tax</b>    | <b>206 701</b>  | <b>47 412</b>   |
| Income taxes paid                                                                       | (72 375)        | (69 814)        |
| <b>Net cash flows provided by / (used in) operating activities</b>                      | <b>134 326</b>  | <b>(22 402)</b> |
| <b>Cash flows from investing activities</b>                                             |                 |                 |
| Purchase of securities held to maturity                                                 | (287 175)       | (521 082)       |
| Proceeds from securities held to maturity                                               | 139 059         | 519 896         |
| Interest received from the securities held to maturity                                  | 93 556          | 84 409          |
| Dividends received from subsidiaries, associates and other investments                  | 2 848           | 2 063           |
| Purchase of share in subsidiaries and associates                                        | (3 495)         | -               |
| Proceeds from sale of subsidiaries and associates                                       | 7 493           | -               |
| Purchase of intangible assets, property and equipment                                   | (18 504)        | (21 755)        |
| Proceeds from sale of intangible assets, property and equipment                         | 9 404           | 3 337           |
| <b>Net cash flows provided by / (used in) investing activities</b>                      | <b>(56 814)</b> | <b>66 868</b>   |
| <b>Cash flows from financing activities</b>                                             |                 |                 |
| Dividends paid                                                                          | (175 510)       | (202 195)       |
| Repayment of subordinated debt                                                          | (100 000)       | -               |
| Interest paid on subordinated debt                                                      | (1 671)         | (1 001)         |
| Issue of the bonds                                                                      | 346 242         | 411 148         |
| Repayment of the bonds                                                                  | (126 108)       | (161 839)       |
| Interest paid to the holders of the bonds                                               | (20 404)        | (14 596)        |
| <b>Net cash flows provided by / (used in) financing activities</b>                      | <b>(77 450)</b> | <b>31 517</b>   |
| Effect of foreign exchange rate changes on cash and cash equivalents                    | (266)           | (433)           |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                           | <b>(204)</b>    | <b>75 550</b>   |
| <b>Cash and cash equivalents at beginning of period</b>                                 | <b>348 244</b>  | <b>348 040</b>  |
| <b>Cash and cash equivalents at end of period</b>                                       | <b>348 040</b>  | <b>423 590</b>  |
| <b>Operational cash flows from interest and dividends</b>                               |                 |                 |
| Tax paid                                                                                | (72 375)        | (69 814)        |
| Interest received                                                                       | 413 605         | 343 648         |
| Dividends received                                                                      | 1 071           | 1 008           |
| Interest paid                                                                           | (41 715)        | (22 813)        |

The notes on pages 79 to 187 are an integral part of these financial statements.

During the year 2017 and 2016 there were no other significant non-cash movements from investing and financing activities.

# Notes to the consolidated financial statements

## A. GENERAL INFORMATION

Slovenská sporiteľňa, a. s. (hereafter 'the Bank' or 'Parent company') has its registered office at Tomášikova 48, 832 37 Bratislava, the Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653 and its tax identification number is 2020411536. The Bank is a universal Bank offering a wide range of Banking and financial services to commercial, financial and private customers, principally in the Slovak Republic.

As at 31 December 2017 the sole shareholder of the Bank was Erste Group Bank AG with the registered office located at Am Belvedere 1, 1100 Vienna, Austria. The financial statements of Erste Group Bank AG (the parent) will be available after their completion the austrian court Firmenbuchgericht Wien, Marxergasse 1a, 1030 Vienna.

The ultimate controlling parties of Erste Group Bank AG as at 31 December 2017 were DIE ERSTE oesterreichische Spar-Casse Privatstiftung and CaixaBank S.A.. Information on the parent company's shareholder structure are published in the financial statements of Erste Group Bank AG for the year 2017.

The Board of Directors of the Parent company had five members as at 31 December 2017:

Ing. Štefan Máj (Chairman), Ing. Peter Krutil (Deputy Chairman), Mag. Alexandra Habeler-Drabek (Member), Ing. Richard Chomist (Member) a Ing. Zdeněk Románek (Member).

As at 31 December 2017 Ing. Štefan Máj resigned his function as the member of the Board of Directors, the chairman of the Board of Directors and the Chief Executive Officer due to his retirement. The Supervisory Board of the Bank has approved for the vacant position as the chairman of the Board of Directors and the Chief Executive Officer of Slovenská sporiteľňa, a.s. Ing. Peter Krutil, effective from 1 January 2018.

Effective from 26 January 2018, following a prior approval of the European Central Bank, Ing. Pavel Cetkovský has been elected as a member of the Board of Directors and deputy of the Chief Executive Officer.

The Chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The Deputy Chairman of the Board of Directors is the First Deputy of the Chief Executive Officer. Other members of the Board of Directors are the Deputies of the Chief Executive Officer.

The Supervisory Board of the Parent company had six members as at 31 December 2017:

Gernot Mittendorfer M.B.A. (Chairman), Mag. Jan Homan (Member), Mag. Ľudovít Ódor (Member), Ing. Tatiana Knošková (Member), JUDr. Beatrika Melichárová (Member) a Ing. Alena Adamcová (Member).

In the year 2017 two members of the Supervisory Board met the independency condition according to the regulations issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).

The Bank is subject to the regulatory requirements of the National Bank of Slovakia and other regulatory bodies defined by the Slovak legislation.

Since 4 November 2014 the Bank operates under a direct supervision of the European Central Bank within a Single Supervision Mechanism.

These consolidated financial statements are statements of the Bank and its subsidiaries and associates (the Group) that are disclosed in note 19.

## B. SIGNIFICANT ACCOUNTING POLICIES

### 1) Statement of compliance

Pursuant to the Article 17a of the Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 Banks are required to prepare separate financial statements, consolidated financial statements and annual report according to the special regulations – Regulation (EC) no. 1606/2002 of the European Parliament and of the Council on Application of International Accounting Standards. As a result, the financial statements prepared in accordance with International Financial Reporting Standards effectively replaced the financial statements prepared under Slovak Accounting Standards.

The consolidated financial statements of the Group for the year ended 31 December 2017 are prepared in accordance with International Financial Reporting Standards ('IFRS' or 'IAS') as adopted by the European Union ('EU') on the basis of the regulation no. 1606/2002.

IFRS as adopted by the EU do not currently differ from IFRS and interpretations as issued by the International Accounting Standards Board (IASB), except for certain standards issued but not yet effective and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Group has assessed that the standards not endorsed by the EU would not impact significantly the Group's financial statements if they were applicable as at the presented balance sheet date. Information on application of new and amended IAS / IFRS standards are detailed in the part 6 of chapter B).

### 2) Basis of preparation

These consolidated financial statements have been approved by the Board of Director of the Bank and will be submitted for approval to the Supervisory Board and the General Assembly. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2017, which were signed and authorised for issue by the Board of Directors of the Bank on 13 February 2018 and are available at its registered office or on the web page.

The Group's consolidated financial statements the prior period (the year ended 31 December 2016) were signed and authorised for issue on 7 February 2017.

In accordance with the applicable measurement models defined or allowed by IFRS, these consolidated financial statements were prepared on a cost basis (or amortised cost), except for financial assets available for sale, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, as well as financial derivatives, hedging derivatives and related hedged items, all of which were measured at fair value.

These consolidated financial statements were prepared using the going concern assumption that the Group will continue to operate in the foreseeable future.



These consolidated financial statements are presented in Euro (Eur), which is the functional currency of the Group besides the associate Holding Card Service, spol. s r.o., which has Czech crown (Czk) as functional currency. The measurement unit is thousands of Eur ('Eur ths.'), unless stated otherwise. The amounts in parentheses represent negative values. The tables in these consolidated financial statements and notes may contain rounding differences.

The comparative amounts presented in these consolidated financial statement are those presented in the Consolidated statement of financial positions as at 31 December 2016 and the Consolidated statement of profit or loss and Consolidated statement of other comprehensive income for the year ended 31 December 2016.

In the following notes, the Statement of financial position may be referred to as 'balance sheet' and the Statement of profit or loss may be referred to as 'income statement'.

### 3) Subsidiaries and associates

The Consolidated Financial Statements present the accounts and results of the Group.

#### Subsidiaries

All subsidiaries controlled by the Bank are consolidated in the Group financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2017.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with subsidiary (the investee) and has the ability to affect those returns through its power to govern the relevant activities of this company. Relevant activities of the company are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable to the owners of the Bank. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

#### Investments in associates

Investments in associates are accounted for using the equity method. Under the equity method, an interest in an associate is recognised on the balance sheet at cost plus post-acquisition changes in the

Group's share of the net assets of the entity. The Group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2017 and for the year then ended.

Investments in associates ('associates') represent entities over which the Group exercises significant influence. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control of those policies.

#### Changes in the scope of consolidation during 2017 and 2016

The group structure of Slovenská sporiteľňa, a.s. is presented in the note 19. This note also provides information on acquisitions, sales, mergers and other transactions relating to the investments of the Bank in subsidiaries and associates undertaken during the years 2017 and 2016.

### 4) Accounting and measurement methods

#### Foreign currency translations

These financial statements are presented in Euro ('Eur'), which is the functional currency of the Group. The functional currency is the currency of the primary business environment in which an entity operates.

Transactions in foreign currencies are initially translated to Euro at the exchange rate effective as at the transaction date. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated to Euro at the exchange rate as at the balance sheet date. All resulting exchange differences are recognised in the income statement line item 'Net trading result'. Non-monetary items that are measured at historical costs in foreign currencies are translated to Euro using the exchange rates as at the dates of the initial transactions.

For foreign currency translation, the Group uses exchange rates quoted by the European Central Bank.

#### Financial instruments – recognition and measurement

Financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and financial liabilities, including derivative financial instruments, have to be recognised on the balance sheet and measured in accordance with their assigned categories.

With reference to an investment strategy, the Group uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

The categories of financial instruments relevant for measurement (as per IAS 39) are not necessarily presented separately on the balance sheet. Specific relationships between the balance sheet line items

and particular categories of financial instruments are described in the note (x) below.

#### **(i) Initial recognition and measurement of financial instruments**

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, when an asset is delivered. Regular way trades are purchases or sales of financial assets that require delivery of an asset within the time frame generally established by a regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics, as well as on the management's intention for which the financial instruments were acquired.

Financial instruments are measured initially at their fair value including transaction costs. However, in case of financial instruments at fair value through profit or loss, transaction costs are not included in the initial measurement and are directly recognised in the income statement.

#### **(ii) Cash and balances with central banks**

Balances with central Banks include only claims (deposits) against central Banks, which are repayable on demand. Repayable on demand means that a deposit may be withdrawn at any time or with a term of notice of one business day (or 24 hours). Minimum mandatory reserves are also shown under this position.

#### **(iii) Derivative financial instruments**

Derivative financial instruments used by the Group include mainly interest rate and currency swaps, forward rate agreements, futures, interest rate and currency options and others. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. For presentation purposes derivatives are split into:

- derivatives – held for trading
- derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. These derivatives are presented on the balance sheet under the heading 'Financial assets / financial liabilities – held for trading', as a separate line item 'Derivatives'. This line item includes all types of non-hedging derivatives regardless of their internal classification, i.e. both derivatives held in trading book and banking book.

Changes in fair value (clean price) of derivatives – held for trading are recognised in the income statement line item 'Net trading result'.

Interest income/expense related to financial derivatives is recognised in the income statement line item 'Net interest income' for derivatives held as hedging instruments and in the income statement line item 'Net trading result' for derivatives held for trading.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges complying the conditions of IAS 39. They are presented on the balance sheet line item 'Derivatives - hedge accounting', on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges

are recognised in the income statement line item 'Net trading result'. Interest income / expense related to derivatives in fair value hedges is recognised in the income statement line item 'Net interest income'.

Changes in fair value (dirty price) of derivatives in cash flow hedges is reported separately for the effective part, which is recognised in the other comprehensive income line item 'Cash flow hedge reserve' and for the ineffective part, which is recognized in the income statement line item 'Net trading result'.

Interest income / expense on derivatives in cash flow hedges is a part of dirty price measurement, which is split into effective and ineffective part as described above reported in the line items mentioned above depending on the hedge effectiveness.

#### **(iv) Financial assets and financial liabilities – held for trading**

Financial assets and financial liabilities classified as held for trading comprise of derivatives is described in the note (iii) below and other trading assets and liabilities.

Other trading assets and liabilities include debt securities, as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. They are presented on the balance sheet under the heading 'Financial assets / liabilities – held for trading' as a separate line item 'Other trading assets / liabilities'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and other trading liabilities are recognised in the income statement line item 'Net trading result'. Interest income / expenses related to debt instruments are reported in the income statement line item 'Net interest income'. Dividend income from equity instruments is reported in the income statement line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

#### **(v) Financial assets or financial liabilities - at fair value through profit or loss**

Financial assets or financial liabilities classified in this category have been designated at fair value at their initial recognition based on the management's decision.

The Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy of the Group, the performance of this portfolio is evaluated and regularly reported to the management.

Financial assets designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial assets - at fair value through profit or loss'. Changes in fair value are reported in the income statement line item 'Result from financial instruments designated at fair value through profit or loss'. Interest earned on debt instruments is reported in the income statement line item 'Net interest income'. Dividend income on equity instruments is shown in the income statement line item 'Dividend income'.

The Group uses the fair value option also for some hybrid financial liabilities in the following cases:

- if such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- if the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk of financial liabilities designated at fair value through profit or loss is calculated in compliance with IFRS 7. It is calculated as a difference between the present value of the liability and its observed market price at the end of the reporting period. The rate used for discounting the liability is the sum of the observed interest rate at the end of the reporting period and the instrument-specific component of internal rate of return determined at the beginning of the period.

Financial liabilities designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial liabilities – at fair value through profit or loss', further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are reported in the income statement line item 'Result from financial instruments designated at fair value through profit or loss'. Interest incurred is reported in the income statement line item 'Net interest income'.

#### **(vi) Financial assets – available for sale**

Financial assets available-for-sale include debt and equity securities, as well as interests in other entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in market conditions.

Financial assets available for sale are measured at fair value, and are disclosed on the balance sheet line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income line item 'Available for sale reserve' until the respective financial asset is disposed of or impaired. If these assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. In case of sale the reclassified cumulative gain or loss is reported in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'. In case of impairment the losses are reported in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Interest income on available-for-sale financial assets is reported in the income statement line item 'Net interest income'. Dividend income from available-for-sale financial assets is reported in the income statement line item 'Dividend income'.

Investments in non-quoted equity instruments are recorded at cost less impairment, if their fair value cannot be measured reliably. This is the case when there is no active market for such investments, the range of reasonable fair value estimates calculated by valuation

models is significant and the probabilities of various estimates cannot be reasonably assessed.

#### **(vii) Financial assets – held to maturity**

Financial assets held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group intends and is able to hold until maturity following the approved investment strategy. These financial assets are reported on the balance sheet line item 'Financial assets – held to maturity'. After initial recognition, these securities are measured at amortised cost calculated with regard to any discount, premium and transaction costs, which are integral parts of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement line item 'Net interest income'. Losses arising from impairment of such financial assets are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Occasional realised gains or losses from selling these assets are recognised in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

#### **(viii) Loans and receivables**

The balance sheet line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Moreover, finance lease receivables accounted for using IAS 17 are presented on these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Group, upon initial recognition, designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment for other reasons than credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Interest income earned on loans and receivables is recognised in the income statement line item 'Net interest income'.

Impairment losses arising from loans and advances are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Finance lease receivables measurement is described in the note 'Leasing'.

#### **(ix) Financial liabilities measured at amortised cost**

Financial liabilities measured at amortised cost are disclosed under the balance sheet line item 'Financial liabilities measured at amortised cost' and further broken down to the following categories: 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Financial liabilities are measured at amortised cost, unless they are

measured at fair value through profit or loss.

Interest expense incurred by these financial liabilities is reported in the income statement line item 'Net interest income'. Gains and

losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported in the income statement line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

(x) Relationships between balance sheet line items, measurement methods and categories of financial instruments:

| BALANCE SHEET POSITION                                       | MEASUREMENT PRINCIPLE |                   |               | FINANCIAL INSTRUMENT CATEGORY                                |
|--------------------------------------------------------------|-----------------------|-------------------|---------------|--------------------------------------------------------------|
|                                                              | Fair value            | At amortised cost | Other         |                                                              |
| ASSETS                                                       |                       |                   |               |                                                              |
| Cash and cash balances                                       |                       | x                 | Nominal value | Loans and receivables                                        |
| Financial assets - held for trading                          |                       |                   |               |                                                              |
| Derivatives                                                  | x                     |                   |               | Financial assets at fair value through profit or loss        |
| Other trading assets                                         | x                     |                   |               | Financial assets at fair value through profit or loss        |
| Financial assets - at fair value through profit or loss      | x                     |                   |               | Financial assets at fair value through profit or loss        |
| Financial assets - available for sale                        | x                     |                   |               | Available for sale financial assets                          |
| Financial assets - held to maturity                          |                       | x                 |               | Held to maturity investments                                 |
| Loans and receivables to credit institutions                 |                       | x                 |               | Loans and receivables                                        |
| thereof: Finance lease                                       |                       |                   | IAS 17        | n/a                                                          |
| Loans and receivables to customers                           |                       | x                 |               | Loans and receivables                                        |
| thereof: Finance lease                                       |                       |                   | IAS 17        | n/a                                                          |
| Derivatives - hedge accounting                               | x                     |                   |               | n/a                                                          |
| LIABILITIES AND EQUITY                                       |                       |                   |               |                                                              |
| Financial liabilities - held for trading                     |                       |                   |               |                                                              |
| Derivatives                                                  | x                     |                   |               | Financial liabilities - at fair value through profit or loss |
| Other trading liabilities                                    | x                     |                   |               | Financial liabilities - at fair value through profit or loss |
| Financial liabilities - at fair value through profit or loss | x                     |                   |               | Financial liabilities - at fair value through profit or loss |
| Financial liabilities measured at amortised cost             |                       | x                 |               | Financial liabilities measured at amortised cost             |
| Derivatives - hedge accounting                               | x                     |                   |               | n/a                                                          |

Furthermore, two additional classes of financial instruments not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable loan commitments.

## Reclassifications of financial assets

IAS 39 allows various alternatives to reclassify financial assets between the categories of financial instruments and also imposes some restrictions regarding their reclassification. The Group makes applies a reclassification option only with held-to-maturity financial assets. If a significant credit deterioration of a held-to-maturity financial asset results in the change of the Group's intention and ability to hold the asset until maturity, it is reclassified to the category of available-for-sale financial assets

## Derecognition of financial assets and financial liabilities

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

- expiration of the contractual rights to receive cash flows from the asset; or
- transfer of the contractual rights to receive cash flows from the asset; or
- acceptance of an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and the Group either:
  - has transferred substantially all the risks and rewards connected with the ownership of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or expires.

## Determination of fair value

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.

Details on valuation techniques applied for fair value measurement and fair value hierarchy are disclosed in the note 36.

## Impairment of financial assets and credit risk losses of contingent liabilities

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ('loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Group uses as a primary indicator of loss event the definition of default in accordance with the CRR (the Regulation EU no. 575/2013 of the European Parliament and of the Council).

Default, as a loss event, is deemed to have occurred when whatever of the following events had taken place:

- a client is unlikely to fully repay its credit obligations to the Group without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Group;
- whatever condition or obligation under the contract has been

breached by a client, on the basis of which the Group is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client either in full or its part, charge late payment interests or claim satisfaction of the credit exposure from the means securing such credit obligation);

- the obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, indications of impairment are observable data indicating there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with defaults.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

### (i) Financial assets at amortised cost

At first, the Group assesses individually significant loans and held-to-maturity securities, whether an objective evidence of impairment exists. If there is no objective evidence of impairment for an individually assessed financial asset, the Group includes that particulate asset into a group of financial assets with similar credit risk characteristics and assesses them for impairment collectively. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in the collective assessment of impairment.

If an impairment loss has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset takes into account also cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets measured at amortised cost are recognised as loss allowances which decrease the value of financial assets disclosed on the balance sheet. It means that the net carrying amount of a financial asset presented on the balance sheet is the difference between its gross carrying amount and the related cumulative loss allowance. This treatment is applicable for individual and portfolio loss allowances for loans and receivables.

In case of held-to-maturity financial assets accounting treatment and presentation differ based on the type of loss allowances. Portfolio loss allowances covering incurred, but not identified impairment losses decrease the value of these financial assets on the balance sheet. Individual loss allowances covering identified impairment losses directly reduce the carrying amounts of these financial assets.

Reconciliation of changes in loss allowance accounts is presented in the notes 16 and 17. This reconciliation reflects only changes in loss allowances for loans and receivables and portfolio loss allowances for held-to-maturity financial assets.

Impairment losses and their reversals are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

If the amount of estimated impairment loss increases or decreases



in a subsequent year, the previously recognised impairment loss is increased or reduced respectively by adjusting the allowance account.

Loans together with the associated loss allowances are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by the Group.

#### **(ii) Financial assets available-for-sale**

In case of debt instruments classified as available for sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost.

The amount of impairment is the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. When impairment is identified, any amount of losses accumulated in the other comprehensive income line item 'Available for sale reserve' is reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

In cases of equity investments classified as available for sale, objective evidence of impairment includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline means that a market price is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is an objective evidence of impairment on equity investments, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. For the impaired equity investment, any amount of losses previously recognised in the other comprehensive income line item 'Available for sale reserve' has to be reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses on equity investments are not reversed through the income statement and the increases in the fair value after impairment are recognised directly in other comprehensive income line item 'Available for sale reserve'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

For investments in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

#### **(iii) Contingent liabilities**

Provisions for credit losses from contingent liabilities (particularly

financial guarantees and loan commitments) are reported on the balance sheet line item 'Provisions'. The related expenses or their reversals are reported in the income statement line item 'Other operating result'.

#### **Repurchase and reverse repurchase agreements**

Sale and repurchase agreements, also known as 'repo transactions', represent transactions where securities are sold under an agreement to repurchase them at a specified future date. The securities sold as a part of such transactions are not derecognised, i.e. remain on the balance sheet and continue in measurement applicable to the respective financial assets. The reason for this is that the Group retains substantially all risks and rewards related to the ownership of these securities, which are repurchased when the repo transaction ends. Moreover, the Group is the beneficiary of all coupons and other income payments received on the transferred securities over the repo transactions period. These payments are remitted to the Group or are reflected in the repurchase price.

Cash proceeds from the sold securities are recognised on the balance sheet together with a corresponding liability, which is recorded on the balance sheet line item 'Financial liabilities measured at amortised cost', further broken down to 'Deposits from banks' or 'Deposits from customers'. These financial liabilities reflect the transaction's economic substance as a loan to the Group with the obligation to return cash amount. The difference between the sale and repurchase prices is treated as an interest expense and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

Conversely, the securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the balance sheet in the respective line items as either 'Loans and receivables to credit institutions' or 'Loans and receivables to customers' reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as an interest income and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

#### **Securities lending and borrowing**

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the lending duration. The transfer of securities to counterparties via securities lending does not result in derecognition. The Group, as a lender, retains substantially all risks and rewards related to the ownership of the transferred securities, because they are received at the end of the securities lending transaction. Moreover, the Group is the beneficiary of all coupons and other income payments received on the transferred securities over the securities lending period.

Conversely, the securities borrowed are not recognised on the balance sheet, unless they are sold to third parties. In this case, the obligation to return the securities is recorded under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

## Embedded derivatives

In the normal course of business, the Group is involved in debt instruments containing structured features. The structured feature means that a derivative is embedded in a host debt instrument.

The embedded derivatives are separated from host debt instruments if:

- the embedded derivative meets the definition of derivative according IAS 39; and
- the economic characteristics of the derivative are not closely related to the economic characteristics and risks of the host debt instrument; and
- the hybrid instrument is not a financial asset or financial liability held for trading or designated at fair value through profit or loss.

The embedded derivatives, which are separated are accounted for as stand-alone derivatives and reported on the balance sheet under the heading 'Financial assets – held for trading' as a separate line item 'Derivatives'. They are embedded mainly in host issued debt instruments recognised as liabilities. The most typical examples are deposits and bonds issued that contain interest caps, floors or collars, as well as financial instruments linked to non-interest variables such as FX rates, equity and commodity prices and indices or third-party credit risk.

## Hedge accounting

The Group utilises derivative instruments to manage its exposure to interest rate risk and foreign currency risk. At inception of a hedge transaction, the Group formally documents the relationship between a hedged item and a hedging instrument, including the nature of risk, the strategy and the objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows during the period attributable to the hedged risk for which the hedge is designated are expected to be offset by the fair value changes of the hedging instrument in a range of 80 % to 125 %. The hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. The Group defines specific conditions for particular types of hedges and for effectiveness testing in internal hedge policy.

The Group uses fair value hedges to reduce market risk. For qualifying and designated fair value hedges, the change in fair value (clean price) of the hedging instrument is recognised in the income statement line item 'Net trading result'. The change in fair value of the hedged item attributable to the hedged risk is also recognised in the income statement line item 'Net trading result' and adjusts the carrying amount of the hedged item. Interest income and expense on hedging derivatives are recognised in the income statement line item 'Net interest income'.

The hedge relationship is terminated, when the hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. In this case, the fair value adjustment of the hedged item is amortised in the income statement line item 'Net interest income' until maturity of the financial instrument.

## Offsetting financial instruments

Financial assets and financial liabilities are offset and their net amount is presented on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle them on a net basis or to realise the asset and settle the liability simultaneously.

## Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The depreciation period and method are reviewed at least at each financial year-end and adjusted if necessary. Depreciation is recognised in the income statement line item 'Depreciation and amortisation'. Impairment losses on property and equipment is recognized in the income statement line item 'Other operating result'.

Land is not depreciated.

The estimated useful lives are as follows:

| Type of property and equipment | Useful life<br>in years 2017 and 2016 |
|--------------------------------|---------------------------------------|
| Own buildings and structures   | 30 years                              |
| Rented premises                | per contract                          |
| Office furniture and equipment | 4 – 6 years                           |
| Computer hardware              | 4 years                               |
| Passenger cars                 | 4 years                               |
| Fixture and fittings           | 6 – 12 years                          |

Property and equipment is derecognised on its disposal or when no future economic benefits are expected from its use. Gain or loss arising on disposal of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement line item 'Other operating result'.

## Investment property

Investment property is a property (land and buildings or part of them) held for the purpose of earning rental income or for capital appreciation. If such a property is partially used by the Group, it is considered as investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where their future use is expected to be the same as for investment property, are also classified in this category.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet line item 'Investment properties'.

Depreciation of investment property is recognised in the income statement line item 'Depreciation and amortisation' and is calculated using the straight-line method over an estimated useful life. The useful life of investment property is identical to that of buildings reported under property and equipment. Rental income is recognised in the income statement line item 'Rental income from investment properties and other operating leases'.

## Intangible assets

The Group's intangible assets include mostly computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that future economic benefits attributable to it will flow to the Group.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement line item 'Depreciation and amortisation'. Intangible assets with infinite lives are not amortised.

The estimated useful lives are as follows:

| Type of intangible assets                    | Useful life<br>in years 2017 and 2016 |
|----------------------------------------------|---------------------------------------|
| Core banking system and related applications | 8 years                               |
| Computer software                            | 4 - 8 years                           |

## Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is performed at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of cash-generating unit ('CGU') to which the asset belongs. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of those from other assets or groups of assets.

When an asset is tested for impairment annually or if any indication of impairment exists, the Group estimates its recoverable amount. The recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of the asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

At each reporting date, assessment of non-financial assets is performed as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to

determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. However, impairment on goodwill cannot be reversed.

Impairments and their reversals are recognised in the income statement line item 'Other operating result'.

## Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements are classified as operating leases.

### (i) The Group as a lessor

In case of finance lease the Group recognises a receivable from the lessee on the balance sheet line items 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement line item 'Net interest income'.

In case of properties provided for rent, the Group recognises the respective asset on the balance sheet line item 'Investment properties' and uses the depreciation method applicable for this type of asset. Rental income is recognised on a straight-line basis over the lease term in the income statement line item 'Rental income from investment properties and other operating leases'.

### (ii) The Group as a lessee

The Group has not entered into any leases meeting the conditions of finance lease.

Operating lease payments are recognised on a straight-line basis over the lease term in the income statement line item 'Other administrative expenses'.

## Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reported on the balance sheet line item 'Provisions'. Expense or income related to provisions are reported in the income statement line item 'Other operating result'. Information on provisions are detailed in the note 26.

## Defined employee benefit plans

Defined employee benefit plans operated by the Group are for pensions and working anniversary benefits. According to IAS 19 categorisation, perspective pension benefits qualify as post-employment defined benefits plans, whereas working anniversary benefits are other long-term employee benefits.

Obligations resulting from the defined employee benefit plans are reported on the balance sheet line item 'Provisions'. Future obligations are determined based on an actuarial expert opinion using the projected unit credit method. The calculation takes into account various assumptions known as at the balance sheet date, such as discount rates, expected rates of return on assets, future salary increases, future pension increases, fluctuation, mortality rates and retirement age.

The key assumptions used in actuarial calculations are disclosed in the note 26.

The employee benefit costs are determined by an actuarial valuation using the projected unit credit method as at the balance sheet date. They are measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the working anniversary benefits are charged to the income statement line item 'Personnel expenses'. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in the equity line item 'Remeasurement of net liability of defined pension plans' in the period in which they occur.

## **Taxes**

### **(i) Current tax**

Current tax assets and liabilities for the current and prior years are measured as the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

### **(ii) Deferred tax**

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced by the extent that it is no longer probable that a sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that a future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date.

Deferred tax relating to the items recognised in the other comprehensive

income is also recognised in the other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

## **Dividends on ordinary shares**

Dividends on ordinary shares are deducted from the equity when they are paid to the Bank's shareholders.

## **Financial guarantees**

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of guarantees and letters of credit. According to IAS 39, financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss incurred in case the specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Group is a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as a collateral when determining impairment of the guaranteed asset.

The Group as a guarantor recognises the financial guarantee as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. Subsequent to initial recognition, the financial guarantee contract is reviewed whether a provision is required according to IAS 37. Such provisions are recorded on the balance sheet line item 'Provisions' and the related income or expenses are recognised in the income statement line item 'Other operating result'.

The premium received for a financial guarantee issued is recognised on a straight-line basis over the life of the guarantee in the income statement line item 'Net fee and commission income'.

## **Fiduciary assets**

The Group provides trust and other fiduciary services that result in holding or investing of assets on behalf of its clients. The assets held in a fiduciary capacity are not reported in these financial statements, as they are not the assets of the Group.

## **Recognition of income and expenses**

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue can be measured reliably.

The description and recognition criteria of the income statement line items are as follows:

### **(i) Net interest income**

Interest income or expense is recognised using the effective interest

rate ('EIR') method. The calculation of EIR includes origination fees resulting from the lending business and transaction costs directly attributable to the instrument (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income on individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of impairment loss measurement.

Interest income includes interest income on cash balances, loans and receivables to credit institutions and customers, bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from banks and customers, debt securities issued and other financial liabilities in all categories.

Net interest income includes interest on non-derivative trading assets and liabilities, as well as on derivative financial instruments held in the banking book.

In addition, net interest cost on defined benefits obligations (pension and jubilee) is recognised in net interest income.

#### **(ii) Net fee and commission income**

The Group earns fee and commission income from a diverse range of services provided to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include fees from lending business, payment services, securities transactions, as well as commissions from collective investment, custody and insurance products.

Fees earned for providing transaction services are recognised upon completion of the underlying transaction. These fees include fees for arranging acquisition of securities and purchase or sale of a business.

#### **(iii) Dividend income**

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

This line item includes dividend from shares and other equity-related securities in all portfolios, as well as income from other investments in companies classified as available for sale. It also contains dividends from subsidiaries, associates or joint ventures.

#### **(iv) Net trading and fair value result**

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments, as well as foreign exchange gains and losses.

In addition, net trading result also contains interest income or expense on derivative financial instruments held in the trading book. However, interest income or expenses on derivative financial instruments held in the banking book are reported in the income statement line item 'Net interest income'.

Net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions.

The fair value result relates to changes in the clean price of assets and liabilities designated at fair value through profit and loss.

#### **(v) Net result from equity method investments**

The line item contains result from associates and joint ventures recorded by applying the equity method (measured as investor's share of profit or loss in the associates and joint ventures).

However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item 'Other operating result'.

#### **(vi) Rental income from investment properties & other operating leases**

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

#### **(vii) Personnel expenses**

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies.

This line item also includes service costs for defined benefit obligations (pension and jubilee) and the actuarial remeasurements of jubilee obligations.

#### **(viii) Other administrative expenses**

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, expenditures for legal and other consultants, advertising and marketing, as well as sundry other administrative expenses.

Furthermore this line item contains deposit insurance fund contributions.

#### **(ix) Depreciation and amortisation**

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

#### **(x) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net**

This line item includes selling and other derecognition gains or losses on loans and receivables, financial assets available-for-sale, financial assets held-to-maturity and financial liabilities measured at amortised cost. However, if such gains or losses relate to individually impaired financial assets, they are reported in the income statement line item



'Net impairment loss on financial assets not measured at fair value through profit or loss'.

**(xi) Net impairment loss on financial assets not measured at fair value through profit or loss**

Net impairment losses on financial assets comprise of impairment losses and reversals of impairment on loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Net impairment losses relate to allowances recognised on individual and portfolio (incurred but not reported) level.

In addition, direct write-offs and recoveries on written-off loans are reported on this line item.

**(xii) Other operating result**

Other operating result includes all income and expenses, which are not presented within operating result of the Group.

This line item includes results on the sale, impairment losses or reversal of impairment related to non-financial assets, such as property and equipment and intangible assets. Any impairment losses on goodwill are presented as other operating result.

In addition, this line item includes gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, as well as the related impairment losses or their reversals.

Other operating result also contains expenses for allocations to provisions, income from their release and other taxes.

The significant items reported within other operating result are legally imposed levies related to the banking activities:

- banking tax, and
- contribution to the National Resolution Fund.

**Renegotiated loans**

The Group seeks to restructure loans, rather than to repossess collaterals, where possible. The restructuring involves extending of payment arrangements and/or agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR calculated before the modification of terms. These loans continue to be subject to individual or collective impairment assessment. The renegotiated loan is no longer considered past due. Management of the Group continually reviews renegotiated loans to ensure that all criteria are met and future payments are likely to occur.

**Collateral repossessed**

The Group's policy is to decide on a beneficial treatment of repossessed assets, whether it should be used for internal operations or should be sold. The assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured assets. The assets determined to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the

Group's policy.

**Collateral valuation**

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, guarantees / letters of credit, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of a collateral is generally assessed, at a minimum, at inception and according to the Group's reporting schedule. To the extent possible, the Group uses active market data for valuation of the financial assets held as collaterals. Other financial assets, which do not have a readily determinable market value, are valued using models. Non-financial collaterals, such as real estates, are valued based on data provided by third parties, e.g. mortgage brokers, housing price indices, and other independent sources

**5) Significant accounting judgements, assumptions and estimates**

When preparing these consolidated financial statements, management has applied a number of judgements, estimates and assumptions about recognition of assets, liabilities, income and expenses. The estimates and assumptions used are based on a historical experience and other factors, such as planning, forecasts and expectations of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these estimates and assumptions the actual results could lead to adjustments of particular line items of the financial statements in the future periods. The most significant uses of judgements, assumptions and estimates are as follows:

**Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined by a variety of valuation techniques using mathematical models. Inputs to these models are derived from observable market data. Where observable market data is not available, a judgement is required to establish fair value. The disclosures for fair values of financial instruments, the fair value hierarchy and valuation models are presented in the note 36.

**Impairment of financial assets**

The Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. For determining an impairment loss it is required to assess whether there is an objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of the future cash flows.

The disclosures concerning impairment are provided in the note 35. The development of loan allowances is described in the notes 8, 16 and 17.

### **(i) Individual assessment of impairment**

Loans and receivables to credit institutions, sovereigns and corporate customers are generally considered by the Group as individually significant and are analysed on an individual basis regardless materiality limits.

Loans and receivables to retail customers with exposures exceeding 200 ths. Eur are generally considered by the Group as individually significant and are analysed on an individual basis.

For impairment classification, the Group uses expected loss threshold of 250 Eur per client. Losses under this amount are considered to be immaterial.

Loans and receivables with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments and proceeds from collateral. Impairment amount is determined by the difference between the gross carrying amount of the loan and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

### **(ii) Portfolio assessment of impairment**

For the purpose of collective assessment of impairment, the financial assets are grouped on the basis of the Group's internal credit rating system.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between the loss estimates and the actual loss experience.

### **Deferred tax assets**

Deferred tax assets are recognised with respect of tax losses and deductible temporary differences. They are recorded to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. A judgement is required to determine the amount of deferred tax assets that can be recognised, based on likely timing and level of future taxable profits, together with future tax planning strategies. The disclosures concerning deferred taxes are in the notes 10 and 22.

## **6) Application of new and amended IAS / IFRS**

The Group has adopted all the standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), as adopted by the European Union, which are valid for the current reporting period and relevant

for its business. The following standards, interpretations and their amendments are applicable for the first time in the year 2017:

### **Effective standards and interpretations**

The following standards and their amendments have become mandatory for the financial year 2017 and were endorsed by EU:

#### **Amendments to IAS 7: Disclosure initiative**

#### **Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses**

#### **Annual improvements to IFRSs 2014 - 2016 cycle (amendments to IFRS 12)**

Application of the above mentioned amendments did not have a significant impact on Group's accounting policies, financial statements or Group's performance.

### **Standards and interpretations not yet effective**

(i) The following standards, amendments and interpretations are not yet endorsed by the EU:

**Sale or contribution of assets between an investor and its associate or joint venture - amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Application of this amendment is not expected to have a significant impact on the Group's financial statements.

**Amendments to IFRS 15: Revenue from contracts with customers** (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018)

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

Application of these amendments is not expected to have a significant

impact on the Group's financial statements.

**Annual improvements to IFRSs 2014 - 2016 cycle - amendments to IFRS 1 and IAS 28** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 )

IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organization, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

**Transfers of investment property - amendments to IAS 40** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

**IFRIC 23: Uncertainty over income tax treatments** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts

the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the interpretation.

Application of this IFRIC is not expected to have a significant impact on the Group's financial statements.

**Prepayment features with negative compensation - amendments to IFRS 9** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

**Long-term interests in associates and joint ventures - amendments to IAS 28** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

Application of these amendments is not expected to have a

significant impact on the Group's financial statements.

**Other amendments that do not have direct impact on the Group's operations and were considered as not relevant:**

**Amendments to IFRS 2: Share-based payment** (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)

**Applying IFRS 9 Financial instruments with IFRS 4 insurance contracts - amendments to IFRS 4** (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach)

**IFRS 17: Insurance contracts** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)

**IFRIC 22: Foreign currency transactions and advance consideration** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)

**Annual improvements to IFRSs 2015 - 2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

(ii) Nasledujúce štandardy, dodatky a interpretácie už boli prijaté Európskou úniou:

**IFRS 9: Financial instruments** (IASB effective date: 1 January 2018)

**The standard**

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both of the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to financial assets that meet condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition

to measure them at fair value with changes recognised in other comprehensive income.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income. IFRS 9 provides an option to apply this requirement early, however the Group does not intend to make use of this option.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected credit losses. Lifetime expected credit losses are to be recognised for all instruments whose credit risk increases significantly after initial recognition. Furthermore the standard clarifies the rules for accounting for gains and losses resulting from modification of contractual conditions of financial assets.

The objective of the new hedge accounting model is to reflect in accounting actual risk management practices of entities hedging risks. For the Group, the following areas are expected to be relevant to achieve this objective: only the prospective effectiveness test is required and the retrospective effectiveness test with the 80 % - 125 % corridor was abandoned; when options are used as hedging instruments, the volatility of the time value is recognised through OCI rather than profit or loss; the possibility of hedging synthetic items containing derivatives.

IFRS 9 provides an accounting policy choice in the area of hedge accounting. Thus, upon adoption of IFRS 9, entities can either (a) start with full application of the hedge accounting requirements of IFRS 9, (b) start with limited application of the hedge accounting requirements of IFRS 9 by continuing to apply IAS 39 to the specific case of fair value hedges of interest rate exposure of a portfolio of financial assets or financial liabilities, or (c) continue with full application of the hedge accounting requirements of IAS 39. The Group plans to implement the third choice. However, some actions are expected to be necessary in order to address additional disclosures that will be required based on IFRS 7 after adoption of IFRS 9.

Based on the accounting policy choice embedded into the transition requirements of IFRS 9, the Group will not restate comparative information upon initial application of IFRS 9. Instead, the one-off impact from initial application of IFRS 9 will be reflected in the opening equity as of the initial application date.

**Implementation of the standard**

Preparation works for the transition to IFRS 9 started in early 2015, when the IFRS 9 implementation project was officially set up.

During 2016, the most efforts of the Group within the project have been refocused on implementation topics, in consideration of the wide range of the impacted internal policies, procedures, working

instructions, processes, IT systems and applications.

Throughout the implementation work, but also in the light of the developing market practice and of the guidance issued by the relevant authoritative bodies and the global accounting consultancies, a limited number of business requirements have been revisited and/or subject to further refinement and additional clarification. This refinement process continues throughout the year 2017 and the early part of 2018. Local policies and procedures is in process of being updated and formally approved accordingly.

During 2017 the Group runs newly implemented IFRS 9 functionalities in parallel to the outgoing IAS 39 production processes. Such a „parallel run“ was primarily meant to ensure the technical readiness for transiting to IFRS9 on 1 January 2018, but also the plausibility and the traceability of the transition impact on the date of initial application.

The current status of IFRS 9 implementation project at the Group enables quantitative financial impacts of IFRS 9 in the area of classification and measurement. In the area of impairment the proposed methodology is currently subject to internal and external reviews and adjustments drawing on experiences during the parallel run. However the Group provides quantitative financial impact of IFRS 9 also in this area.

#### **Quantitative financial impact of the standard**

The main drivers for changes in measurement categories resulting from new IFRS 9 classification and measurement requirements for financial assets are:

- Reclassification of debt instruments in amount of Eur 972,7 mil that are currently classified as financial assets available for sale to amortized cost measurement category according to IFRS 9 due to fulfillment of held-to-collect business model. Such debt instruments also meets SPPI criteria for such measurement.
- Reclassification of two debt instruments in amount of Eur 20,4 mil that are currently classified as financial assets held to maturity to fair value through profit or loss measurement category according to IFRS 9 due contractual features that do not meet criteria of solely payment of principal and interest.
- Reclassification of equity instruments in amount of Eur 3,0 mil that are currently classified as available for sale to fair value through profit or loss measurement category according to IFRS 9 due to application of this standard.



The following table presents original measurement categories in accordance with IAS 39 and new measurement categories under IFRS 9:

| EUR ths.                                                      | Original classification under IAS 39 |                                                    | New classification under IFRS 9                      | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---------------------------------------------------------------|--------------------------------------|----------------------------------------------------|------------------------------------------------------|---------------------------------------|----------------------------------|
|                                                               | Portfolio                            | Measurement method                                 | Measurement method                                   |                                       |                                  |
|                                                               |                                      |                                                    |                                                      |                                       |                                  |
| Financial assets                                              |                                      |                                                    |                                                      |                                       |                                  |
| Cash and cash balances                                        | Amortised cost                       | AC                                                 | Amortised cost                                       | 424 229                               | 424 229                          |
| Derivatives                                                   | Held-for-trading                     | FVTPL                                              | Held-for-trading (FVTPL)                             | 36 484                                | 36 484                           |
| Derivatives - hedge accounting                                | Hedge accounting                     | FV                                                 | Hedge accounting                                     | 6 761                                 | 6 761                            |
| Loans and recivables to credit institutions                   | Loans and receivables                | AC                                                 | Amortised cost                                       | 177 616                               | 177 616                          |
| Loans and recivables to custo-<br>mers                        | Loans and receivables                | AC                                                 | Amortised cost                                       | 11 574 003                            | 11 575 799                       |
| Loans and recivables to<br>customers                          | Loans and receivables                | Finance Lease                                      | Finance Lease                                        | 76 941                                | 76 941                           |
| Loans and recivables to custo-<br>mers                        | Loans and receivables                | Trade receivables<br>and other receivables<br>(AC) | Trade receivables<br>and other receivab-<br>les (AC) | 68 789                                | 68 789                           |
| Financial assets - available for<br>sale (Debt instruments)   | AFS                                  | FVTOCI                                             | Amortised cost                                       | 972 734                               | 894 339                          |
| Financial assets - available for<br>sale (Equity instruments) | AFS                                  | FVTOCI                                             | FVTPL                                                | 3 077                                 | 3 077                            |
| Financial assets - available for<br>sale (Equity instruments) | AFS                                  | FVTOCI                                             | FVTOCI                                               | 44 808                                | 44 808                           |
| Financial assets - held to maturity                           | Held-to-maturity                     | AC                                                 | Amortised cost                                       | 2 624 336                             | 2 624 335                        |
| Financial assets - held to maturity                           | Held-to-maturity                     | AC                                                 | Mandatorily at<br>FVTPL                              | 20 065                                | 20 406                           |
| Financial assets - at fair value<br>through profit at loss    | FV option                            | FVTPL                                              | Mandatorily at<br>FVTPL                              | 5 602                                 | 5 602                            |
| Total financial assets                                        |                                      |                                                    |                                                      | 16 035 446                            | 15 959 187                       |
| Financial liabilities                                         |                                      |                                                    |                                                      |                                       |                                  |
| Deriváty                                                      | Held-for-trading                     | FVTPL                                              | Held-for-trading<br>(FVTPL)                          | 33 344                                | 33 344                           |
| Zabezpečovacie deriváty                                       | Hedge accounting                     | FV                                                 | Hedge accounting                                     | 42 100                                | 42 100                           |
| Financial liabilities - measured at<br>amortised cost         | AC                                   | AC                                                 | Amortised cost                                       | 14 624 693                            | 14 624 693                       |
| Total financial liabilities                                   |                                      |                                                    |                                                      | 14 700 136                            | 14 700 136                       |

The following table reconciles the carrying amounts according IAS 39 to the carrying amounts according IFRS 9 on transition to IFRS 9 on 1 January 2018 (only relevant changes are presented).

| Measurement category                                                                                          | IAS 39 carrying amount as at 31.12.2017 | Reclassifications +/- | Remeasurement +/- (effects of both revaluation and impairment changes) | IFRS 9 carrying amount as at 1.1.2018 | Retained earnings effects +/- | OCI effects +/- |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------|------------------------------------------------------------------------|---------------------------------------|-------------------------------|-----------------|
| <b>Amortised cost</b>                                                                                         | <b>14 889 039</b>                       | -                     | -                                                                      | <b>14 889 039</b>                     | -                             | -               |
| Additions:                                                                                                    |                                         |                       |                                                                        |                                       |                               |                 |
| from IAS39 FVTOCI (AFS)                                                                                       | -                                       | 972 734               | (78 395)                                                               | 894 339                               | 281                           | 78 115          |
| from IAS 39 AC (L&R, HTM) (impairment remeasurement)                                                          | -                                       | -                     | 1 795                                                                  | 1 795                                 | (1 795)                       | -               |
| Subtractions:                                                                                                 |                                         |                       |                                                                        |                                       |                               |                 |
| to IFRS 9 Mandatorily at FVTPL (IAS 39: HTM)                                                                  | -                                       | (20 065)              | -                                                                      | (20 065)                              | -                             | -               |
| Total change to Amortised cost                                                                                | -                                       | 952 669               | (76 600)                                                               | 876 069                               | (1 515)                       | 78 115          |
| <b>Amortised cost balances, reclassification and remeasurement at 1.1.2018</b>                                | <b>14 889 039</b>                       | <b>952 669</b>        | <b>(76 600)</b>                                                        | <b>15 765 108</b>                     | <b>(1 515)</b>                | <b>78 115</b>   |
| <b>Fair value through other comprehensive income</b>                                                          | <b>1 020 620</b>                        | -                     | -                                                                      | <b>1 020 620</b>                      | -                             | -               |
| <b>Fair value through other comprehensive income - debt instruments</b>                                       | <b>972 734</b>                          | -                     | -                                                                      | <b>972 734</b>                        | -                             | -               |
| Subtractions:                                                                                                 |                                         |                       |                                                                        |                                       |                               |                 |
| to IFRS 9 AC (IAS 39: AFS)                                                                                    | -                                       | (972 734)             | -                                                                      | (972 734)                             | -                             | -               |
| <b>Subtotal change to Fair value through other comprehensive income - debt instruments</b>                    | <b>-</b>                                | <b>(972 734)</b>      | <b>-</b>                                                               | <b>(972 734)</b>                      | <b>-</b>                      | <b>-</b>        |
| <b>Fair value through other comprehensive income - equity instruments</b>                                     | <b>47 886</b>                           | -                     | -                                                                      | <b>47 886</b>                         | -                             | -               |
| Subtractions:                                                                                                 |                                         |                       |                                                                        |                                       |                               |                 |
| to IFRS 9 FVTPL (IAS 39: AFS)                                                                                 | -                                       | (3 077)               | -                                                                      | (3 077)                               | -                             | -               |
| <b>Subtotal change to Fair value through other comprehensive income - equity instruments</b>                  | <b>-</b>                                | <b>(3 077)</b>        | <b>-</b>                                                               | <b>(3 077)</b>                        | <b>-</b>                      | <b>-</b>        |
| <b>Total change to Fair value through other comprehensive income</b>                                          | <b>-</b>                                | <b>(975 812)</b>      | <b>-</b>                                                               | <b>(975 812)</b>                      | <b>-</b>                      | <b>-</b>        |
| <b>Fair value through other comprehensive income balances, reclassification and remeasurement at 1.1.2018</b> | <b>1 020 620</b>                        | <b>(975 812)</b>      | <b>-</b>                                                               | <b>44 808</b>                         | <b>-</b>                      | <b>-</b>        |
| <b>Fair value through Profit or Loss</b>                                                                      | <b>42 085</b>                           | -                     | -                                                                      | <b>42 085</b>                         | -                             | -               |
| Additions:                                                                                                    |                                         |                       |                                                                        |                                       |                               |                 |
| from IAS39 AC (HTM, IFRS 9: Mandatorily at FVTPL)                                                             | -                                       | 20 065                | 341                                                                    | 20 406                                | (341)                         | -               |
| from IAS39 FVTOCI (Equity instruments: AFS)                                                                   | -                                       | 3 077                 | -                                                                      | 3 077                                 | (2 393)                       | 2 393           |
| <b>Total change to Fair value through Profit or Loss</b>                                                      | <b>-</b>                                | <b>23 143</b>         | <b>341</b>                                                             | <b>23 483</b>                         | <b>(2 734)</b>                | <b>2 393</b>    |
| <b>Fair value through Profit or Loss balances, reclassification and remeasurement at 1.1.2018</b>             | <b>42 085</b>                           | <b>23 143</b>         | <b>341</b>                                                             | <b>65 569</b>                         | <b>(2 734)</b>                | <b>2 393</b>    |
| <b>Total Financial balances, reclassification and remeasurement at 1.1.2018</b>                               | <b>15 951 744</b>                       | <b>-</b>              | <b>(76 259)</b>                                                        | <b>15 875 485</b>                     | <b>(4 249)</b>                | <b>80 508</b>   |

There was no change in classification or remeasurement in connection to implementation of IFRS 9 for financial liabilities.

The following table presents the impact of IFRS 9 on deferred tax assets and deferred tax liabilities:

| EUR ths.                                  | Closing balance as at<br>31.12.2017 (IAS39) | Opening balance as at<br>1.1.2018 (IFRS9) | Retained earnings<br>effects +/- | OCI effects +/- |
|-------------------------------------------|---------------------------------------------|-------------------------------------------|----------------------------------|-----------------|
| Changes in deferred tax assets (DTA)      | 33 711                                      | 50 143                                    | (474)                            | 16 907          |
| Changes in deferred tax liabilities (DTL) | -                                           | -                                         | -                                | -               |

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017 to opening expected credit losses allowance determined according to IFRS 9 as at 1 January 2018.

| EUR ths.                                                            | 31.12.2017<br>(IAS 39/IAS 37) | Reclassifications +/- | Remeasurement +/- | 1.1.2018 (IFRS 9) |
|---------------------------------------------------------------------|-------------------------------|-----------------------|-------------------|-------------------|
| Debt instruments at AC                                              | (360 929)                     | 15                    | 1 651             | (359 263)         |
| Debt instruments at FVTOCI                                          | -                             | -                     | -                 | -                 |
| Finance Lease receivables                                           | (737)                         | -                     | -                 | (737)             |
| Trade and other receivables                                         | (3 453)                       | -                     | -                 | (3 453)           |
| Off balance-sheet exposures (loan commitments and guarantees given) | (15 091)                      | -                     | 721               | (14 369)          |
| <b>Total</b>                                                        | <b>(380 209)</b>              | <b>15</b>             | <b>2 372</b>      | <b>(377 823)</b>  |

Into Stage 1 belong financial instruments without significant increase in credit risk since initial recognition for which 12-month ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and effective interest rate is applied to gross carrying amount for the calculation of interest income.

Into Stage 2 belong financial instruments with significant increase in credit risk since initial recognition for which lifetime ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and effective interest rate is applied to gross carrying amount for the calculation of interest income.

Into Stage 3 belong financial instruments with significant increase in credit risk since initial recognition and such instrument becomes credit-impaired for which lifetime ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and effective interest rate is applied to amortised cost for the calculation of interest income.

Into POCI belong financial instruments that were purchased or originated as credit impaired for which lifetime ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and credit-adjusted effective interest rate is applied to amortised cost for the calculation of interest income.

The following table discloses split of financial instruments per stages:

| EUR ths.                              | Stage 1           | Stage 2         | Stage 3          | POCI            | Total             |
|---------------------------------------|-------------------|-----------------|------------------|-----------------|-------------------|
| <b>Gross carrying amount</b>          |                   |                 |                  |                 |                   |
| Debt securities                       | 3 519 134         | -               | -                | -               | 3 519 134         |
| Loans and advances                    | 11 213 696        | 434 962         | 347 031          | 116 530         | 12 112 219        |
| Finance lease receivables             | 76 815            | -               | 863              | -               | 77 678            |
| Trade and other receivables           | 68 988            | -               | 3 254            | -               | 72 242            |
| <b>Total in gross carrying amount</b> | <b>14 878 633</b> | <b>434 962</b>  | <b>351 148</b>   | <b>116 530</b>  | <b>15 781 273</b> |
| <b>Loss allowances</b>                |                   |                 |                  |                 |                   |
| Debt securities                       | (459)             | -               | -                | -               | (459)             |
| Loans and advances                    | (35 603)          | (39 736)        | (223 926)        | (59 539)        | (358 804)         |
| Finance lease receivables             | (196)             | -               | (541)            | -               | (737)             |
| Trade and other receivables           | (247)             | -               | (3 206)          | -               | (3 453)           |
| <b>Total of loss allowances</b>       | <b>(36 505)</b>   | <b>(39 736)</b> | <b>(227 673)</b> | <b>(59 539)</b> | <b>(363 453)</b>  |
| <b>Net carrying amount</b>            |                   |                 |                  |                 |                   |
| Debt securities                       | 3 518 675         | -               | -                | -               | 3 518 675         |
| Loans and advances                    | 11 178 093        | 395 226         | 123 105          | 56 991          | 11 753 415        |
| Finance lease receivables             | 76 619            | -               | 322              | -               | 76 941            |
| Trade and other receivables           | 68 741            | -               | 48               | -               | 68 789            |
| <b>Total in net carrying amount</b>   | <b>14 842 128</b> | <b>395 226</b>  | <b>123 475</b>   | <b>56 991</b>   | <b>15 417 820</b> |

The following table discloses split of off-balance sheet exposures per stages:

| EUR ths.                                                  | Stage 1            | Stage 2         | Stage 3        | POCI            | Total              |
|-----------------------------------------------------------|--------------------|-----------------|----------------|-----------------|--------------------|
| <b>Off balance exposure</b>                               |                    |                 |                |                 |                    |
| Financial guarantees given                                | (320 510)          | (3 557)         | (980)          | (4 692)         | (329 739)          |
| Loan commitments given                                    | (1 930 121)        | (23 368)        | (1 681)        | (55 373)        | (2 010 543)        |
| <b>Total of off balance exposure</b>                      | <b>(2 250 631)</b> | <b>(26 925)</b> | <b>(2 661)</b> | <b>(60 065)</b> | <b>(2 340 282)</b> |
| <b>Provisions for off-balance sheet exposure</b>          |                    |                 |                |                 |                    |
| Financial guarantees given                                | (1 114)            | (245)           | (69)           | (683)           | (2 111)            |
| Loan commitments given                                    | (3 374)            | (957)           | (374)          | (7 553)         | (12 258)           |
| <b>Total of provisions for off-balance sheet exposure</b> | <b>(4 488)</b>     | <b>(1 202)</b>  | <b>(443)</b>   | <b>(8 236)</b>  | <b>(14 369)</b>    |

### **Disclosure regarding the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds**

The following information fulfills the disclosure requirement in accordance with guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds.

Group has chosen not to apply the transitional arrangements specified in Article 473a for IFRS 9.

Group's own funds, capital and leverage ratios as at 1 January 2018 on consolidated level already reflect the full impact of IFRS 9.

Group's consolidated own funds decreased by 58,6 mil. Eur due to introduction of IFRS 9 as at 1 January 2018. Lower capital has only a minor effect on capital ratio which decreased by 0,82% on consolidated level. Group's total consolidated capital ratio as at 1 January 2018 is 17,92%.

Group's consolidated leverage ratio as at 1 January 2018 was 7,13% which is lower by 0,34% due to the impact of IFRS 9.

**IFRS 15: Revenue from contracts with customers** (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018)

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason,

minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on the Group's financial statements.

**IFRS 16 Leases** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

In 2017 the Group analyses existing systems and their adaption to the IFRS 16 requirements. The requirements will be implemented throughout 2018. Estimates of the impact on the Group's financial statements are expected to be available in the year 2018.



## C. NOTES

### 1) Net interest income

| EUR ths.                                                | 2016            | 2017            |
|---------------------------------------------------------|-----------------|-----------------|
| <b>Interest income</b>                                  |                 |                 |
| Financial assets - at fair value through profit or loss | 87              | (3)             |
| Financial assets - available for sale                   | 28 637          | 23 483          |
| Financial assets - held to maturity                     | 95 446          | 87 013          |
| Loans and receivables                                   | 394 925         | 370 651         |
| Derivatives - hedge accounting, interest rate risk      | (8 572)         | (9 145)         |
| Other assets                                            | 15              | -               |
| <b>Total interest income</b>                            | <b>510 538</b>  | <b>471 999</b>  |
| <b>Interest expenses</b>                                |                 |                 |
| Financial liabilities measured at amortised cost        | (49 672)        | (33 498)        |
| Derivatives - hedge accounting, interest rate risk      | 837             | 860             |
| Other liabilities                                       | (78)            | (71)            |
| <b>Total interest expense</b>                           | <b>(48 913)</b> | <b>(32 709)</b> |
| <b>Net interest income</b>                              | <b>461 625</b>  | <b>439 290</b>  |

Interest income for the year 2017 included interests related to impaired financial assets in the amount of 8,2 mil. Eur (2016: 8,8 mil. Eur).

Interest income from hedging instruments relates to the hedged items presented in the line item 'Financial assets – available for sale'. Interest expense from hedging instruments relates to the hedged items presented in the line item 'Financial liabilities measured at amortised cost'.

Negative interest from financial assets for the year 2017 amounted 0,3 mil. Eur (2016: 0,5 mil. Eur). Negative interest from financial liabilities for the year 2017 amounted 1,5 mil. Eur (2016: 0,5 mil. Eur). These amounts related to the interbank business only.

## 2) Net fee and commission income

| EUR ths.                                       | 2016            | 2017            |
|------------------------------------------------|-----------------|-----------------|
| Fee and commission income                      |                 |                 |
| Securities                                     | 8 013           | 10 229          |
| Transfer orders                                | 7 686           | 9 237           |
| Other                                          | 327             | 992             |
| Custody                                        | 732             | 718             |
| Collective investment                          | 391             | 497             |
| Other                                          | 341             | 221             |
| Payment services                               | 94 935          | 91 464          |
| Card business                                  | 39 545          | 36 066          |
| Others                                         | 55 390          | 55 398          |
| Customer resources distributed but not managed | 12 492          | 16 699          |
| Collective investment                          | 504             | 570             |
| Insurance products (as agent)                  | 11 959          | 15 658          |
| Other                                          | 29              | 472             |
| Lending Business                               | 26 432          | 16 328          |
| Loan commitments given                         | 592             | 87              |
| Guarantees given                               | 2 865           | 2 943           |
| Other lending business                         | 22 975          | 13 297          |
| Other                                          | 1 012           | 512             |
| <b>Total</b>                                   | <b>143 617</b>  | <b>135 950</b>  |
| Fee and commission expense                     |                 |                 |
| Securities                                     | (428)           | (837)           |
| Other                                          | (428)           | (837)           |
| Custody                                        | (494)           | (525)           |
| Payment services                               | (12 595)        | (12 240)        |
| Card business                                  | (12 012)        | (11 636)        |
| Others                                         | (583)           | (603)           |
| Customer resources distributed but not managed | (1 129)         | (1 604)         |
| Insurance products (as agent)                  | (1 129)         | (1 604)         |
| Lending Business                               | (7 210)         | (8 006)         |
| Other lending business                         | (7 210)         | (8 006)         |
| Other                                          | (43)            | (30)            |
| <b>Total</b>                                   | <b>(21 900)</b> | <b>(23 242)</b> |
| <b>Net fee and commission income</b>           | <b>121 717</b>  | <b>112 708</b>  |

The fee and commission income and expense, which are presented in this table, are not an integral part of the effective interest rate.

## 3) Dividend income

| EUR ths.                                                         | 2016         | 2017         |
|------------------------------------------------------------------|--------------|--------------|
| Financial assets designated at fair value through profit or loss | 629          | 375          |
| Available-for-sale financial assets                              | 564          | 711          |
| Dividend income from equity investments                          | 114          | -            |
| <b>Total</b>                                                     | <b>1 307</b> | <b>1 086</b> |

## 4) Net trading and fair value result

The Group has adopted a business model of centralised financial markets trading in cooperation with its parent company. Within this model Erste Group Bank AG conducts all trading operations on a central trading book in order to manage effectively market risks from the group trading activities (i.e. transactions with retail, corporate and other institutional clients), with the exception of equity risk trading and transactions for the Group's liquidity management purposes.

Trading gains from the market positions of Erste Group Bank AG are distributed according to the approved rules to local banks within the Erste group based on their financial results and are reported in the income statement line item 'Net trading result'.

The basic principle underlying these rules is that Erste Group Bank AG absorbs potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. This business model of financial markets trading also includes reallocation of trading costs to the participating subsidiaries of Erste Group Bank AG based on their cost/income ratio.

### Net trading result

| EUR ths.                           | 2016          | 2017          |
|------------------------------------|---------------|---------------|
| Securities and derivatives trading | 7 964         | 5 866         |
| Foreign exchange transactions      | 5 724         | 7 611         |
| Results from hedge accounting      | (220)         | 296           |
| <b>Net trading result</b>          | <b>13 468</b> | <b>13 773</b> |

The line item 'Securities and derivatives trading' includes gains from the Erste Group Bank's market positions attributable to the Group.

### Result from financial instruments designated at fair value through profit or loss

| EUR ths.                                                                                            | 2016         | 2017         |
|-----------------------------------------------------------------------------------------------------|--------------|--------------|
| Result from financial instruments designated at fair value through profit or loss                   | (916)        | (514)        |
| <b>Result from financial assets and liabilities designated at fair value through profit or loss</b> | <b>(916)</b> | <b>(514)</b> |

## 5) Rental income from investment properties & other operating leases

| EUR ths.               | 2016       | 2017       |
|------------------------|------------|------------|
| Investment properties  | 368        | 324        |
| Other operating leases | 512        | 1          |
| <b>Total</b>           | <b>881</b> | <b>325</b> |

Rental income is generated from rented premises classified as investment properties.

Operating leases included transactions provided by subsidiary Realitná spoločnosť Slovenskej sporiteľne, a.s. (100% subsidiary of Služby SLSP, s.r.o.), which ended its business activities during reported period of the year 2017.

## 6) General administrative expenses

### Personnel expenses

| EUR ths.                                 | 2016             | 2017             |
|------------------------------------------|------------------|------------------|
| Wages and salaries                       | (97 403)         | (101 903)        |
| Legal social securities contribution     | (33 239)         | (35 348)         |
| Voluntary social securities contribution | (462)            | 1 654            |
| Other personnel expenses                 | (6 277)          | (5 322)          |
| <b>Total</b>                             | <b>(137 381)</b> | <b>(140 919)</b> |

As at 31 December 2017 the Group had 4 250 employees (2016: 4 232), thereof five members of the Board of Directors in both years.

Average number of employees in the year 2017 was 4 228 and in the year 2016 average number of employees was 4 248.

### Other administrative expenses

| EUR ths.                       | 2016            | 2017            |
|--------------------------------|-----------------|-----------------|
| Deposit insurance contribution | (2 472)         | (800)           |
| IT expenses                    | (30 842)        | (33 947)        |
| Expenses for office space      | (22 176)        | (23 387)        |
| Office operating expenses      | (11 972)        | (10 875)        |
| Advertising/marketing          | (14 213)        | (14 885)        |
| Legal and consulting costs     | (3 556)         | (3 607)         |
| Sundry administrative expenses | (8 513)         | (9 479)         |
| <b>Total</b>                   | <b>(93 744)</b> | <b>(96 980)</b> |

The Group is legally obliged to make a contribution to the Deposit Protection Fund, which is accounted for in accordance with the IFRIC 21. The amount of this annual contribution is calculated based on the Group's customer deposit liabilities. The contribution to the Deposit Protection Fund was paid in June 2017.

Expenses for audit and other advisory services provided by the audit company are disclosed in the line item 'Legal and consulting costs' and were as follows:

| UR ths.              | 2016         | 2017         |
|----------------------|--------------|--------------|
| Audit fees           | (670)        | (513)        |
| Tax consultancy fees | (75)         | -            |
| Other services       | (126)        | (98)         |
| <b>Total</b>         | <b>(871)</b> | <b>(611)</b> |

## Depreciation and amortisation

| EUR ths.                                                         | 2016            | 2017            |
|------------------------------------------------------------------|-----------------|-----------------|
| Software and other intangible assets                             | (24 546)        | (24 925)        |
| Owner occupied real estate                                       | (11 831)        | (10 921)        |
| Investment properties                                            | (575)           | (223)           |
| Office furniture and equipment and sundry property and equipment | (8 642)         | (8 697)         |
| <b>Total</b>                                                     | <b>(45 594)</b> | <b>(44 766)</b> |

## 7) Gains / losses from financial assets and liabilities not measured at fair value through profit or loss, net

| EUR ths.                                                  | 2016          | 2017       |
|-----------------------------------------------------------|---------------|------------|
| From sale of financial assets available for sale          | 27 004        | 285        |
| From sale of financial assets held to maturity            | 25            | 7          |
| From repurchase of liabilities measured at amortised cost | 15            | 9          |
| <b>Total</b>                                              | <b>27 044</b> | <b>301</b> |

In January 2017 the Group sold its share in the company R.V.S., a.s., previously recognized at nil carrying amount for the sale price of 0,3 mil. Eur.

In the year 2016, referring to the purchase of shares of Visa Europe Ltd. by Visa INC. realised on 21 June 2016, the Group reclassified the actual amount of unrealized measurement of its investment classified as financial asset available for sale in the amount of 26,7 mil. Eur from other comprehensive income to the position "Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net" (see note 14)

Derecognition of the held-to-maturity financial assets relates to the sales close to maturity without breaching tainting rule as defined by IAS 39.

## 8) Net impairment loss on financial assets not measured at fair value through profit or loss

| EUR ths.                                        | 2016            | 2017            |
|-------------------------------------------------|-----------------|-----------------|
| Loans and receivables                           | (48 198)        | (30 024)        |
| Allocation to risk provisions                   | (320 691)       | (305 885)       |
| Release of risk provisions                      | 264 986         | 270 241         |
| Direct write-offs                               | -               | (882)           |
| Recoveries on written-off loans and receivables | 7 507           | 6 502           |
| Financial assets - held to maturity             | (37)            | (50)            |
| <b>Total</b>                                    | <b>(48 235)</b> | <b>(30 074)</b> |



## 9) Other operating result

| EUR ths.                                                         | 2016            | 2017            |
|------------------------------------------------------------------|-----------------|-----------------|
| <b>Other operating expenses</b>                                  |                 |                 |
| Allocation to other provisions                                   | (1 304)         | (906)           |
| Allocation to provisions for commitments and guarantees given    | (28 316)        | (28 071)        |
| Levies on banking activities                                     | (25 111)        | (27 372)        |
| Banking tax                                                      | (25 111)        | (27 372)        |
| Other taxes                                                      | (232)           | (208)           |
| Recovery and resolution fund                                     | (3 995)         | (2 756)         |
| Result from tangible and intangible assets (other than goodwill) | -               | (1 190)         |
| Other operating expenses                                         | 2 270           | (9 732)         |
| <b>Total</b>                                                     | <b>(56 687)</b> | <b>(70 235)</b> |
| <b>Other operating income</b>                                    |                 |                 |
| Release of other provisions                                      | 1 360           | 320             |
| Release of provisions for commitments and guarantees given       | 32 732          | 24 519          |
| Result from tangible and intangible assets (other than goodwill) | 83              | -               |
| Other operating income                                           | 6 436           | 5 601           |
| <b>Total</b>                                                     | <b>40 611</b>   | <b>30 440</b>   |
| <b>Other operating result</b>                                    | <b>(16 075)</b> | <b>(39 794)</b> |

There are two significant items within other operating result for the year 2017 presented in the line item 'Levies on banking activities':

- levy of selected financial institutions ('bank tax') in the amount of 27,4 mil. Eur (2016: 25,1 mil. Eur),
- contribution to the National Resolution Fund ('resolution fund') in the amount of 2,8 mil. Eur (2016: 4,0 Eur).

The Group is legally obliged to make a contribution to the National resolution fund ('Resolution fund'), which is accounted for in accordance with the IFRIC 21. The amount of this annual contribution is determined by the National authority for crisis resolution based on the Group's liabilities and its risk profile. The contribution to the National resolution fund was paid in May 2017.

In the year 2016 the Group realized an extraordinary gain in the amount of 14,5 mil. Eur from the contribution of POS terminals and relating transactions business into the entity Global Payments, s.r.o. seated in Czech republic (note 14). This gain was disclosed in the line item "Result from other operating expenses/income".

In the year 2016, referring to the extraordinary gain realized from the sale of the shares of Visa Europe Ltd., the Bank made a donation amounting 2,6 mil. Eur to Nadácia Slovenskej sporiteľne, that was disclosed in the line item "Result from other operating expenses/income".

## 10) Taxes on income

The actual tax on the Group's profit before tax differs from the theoretical amount that would be calculated using the basic tax rate valid in Slovak Republic due to the following adjustments:

| EUR ths.                                                                                                                       | 2016          | 2017          |
|--------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Pre-tax profit/loss                                                                                                            | 285 947       | 216 559       |
| Statutory tax rate                                                                                                             | 22%           | 21%           |
| Theoretical income tax expense                                                                                                 | 62 909        | 45 477        |
| Impact of tax rate change                                                                                                      | 2 958         | 11            |
| Impact of tax-exempt earnings                                                                                                  | (13 018)      | (2 864)       |
| Impact of tax non-deductible expenses                                                                                          | 19 364        | 10 281        |
| Net impact of non-valued fiscal losses for the year                                                                            | (29)          | 54            |
| Tax loss carry-forward non-recoverable at the end of the prior period, reducing the current tax expense for the current period | (1 009)       | -             |
| Tax income not attributable to the reporting period                                                                            | (326)         | (288)         |
| Tax expenses / earnings not attributable to the reporting period                                                               | 532           | (11)          |
| <b>Total</b>                                                                                                                   | <b>71 381</b> | <b>52 660</b> |

| EUR ths.                      | 2016            | 2017            |
|-------------------------------|-----------------|-----------------|
| Current tax expense / income  | (69 863)        | (55 248)        |
| current period                | (69 863)        | (55 248)        |
| Deferred tax expense / income | (1 518)         | 2 588           |
| current period                | (1 518)         | 2 588           |
| <b>Total</b>                  | <b>(71 381)</b> | <b>(52 660)</b> |

### Expiration of tax losses

| EUR ths.     | 2016         | 2017         |
|--------------|--------------|--------------|
| 2017         | 4 976        | -            |
| 2018         | 2 097        | 2 097        |
| 2019         | 832          | 832          |
| 2020         | 769          | 769          |
| 2021         | -            | -            |
| <b>Total</b> | <b>8 674</b> | <b>3 698</b> |

Tax losses carried forward represent results of the former subsidiaries, which were merged with the Bank during prior years. Further information on tax assets and liabilities are disclosed in the note 22.

## 11) Cash and cash balances

| EUR ths.                       | 2016           | 2017           |
|--------------------------------|----------------|----------------|
| Cash on hand                   | 317 057        | 369 787        |
| Cash balances at central banks | 79 916         | 640            |
| Other demand deposits          | -              | 53 802         |
| <b>Total</b>                   | <b>396 973</b> | <b>424 229</b> |

As at 31 December 2017 the balances at central banks included a mandatory reserve deposit in the amount of 0,6 mil. Eur (2016: 79,9 mil. Eur). For the period covering the year-end 2017 the prescribed average balance of the mandatory reserve deposit amounted 123,0 mil. Eur (2016: 112,4 mil. Eur) and the actual fulfilment was 100,08 % (2016: 118,40 %).

For the purpose of the Statement of cash flows, cash and cash equivalents include accounts with central banks and accounts with

other credit institutions repayable on demand. The mandatory reserve deposit is excluded from cash and cash equivalents. This deposit is repayable on demand, however it is not used for a day-to-day operation, as the Bank is required to meet a defined average balance during a monitored period.

As at 31 December 2016 other demand deposits amounted 31,0 mil. Eur and were disclosed in the line item "Loans and receivables to credit institutions".

## 12) Financial assets – held for trading / Derivatives

| EUR ths.         | Notional value   |                  | Positive fair value |               | Negative fair value |               |
|------------------|------------------|------------------|---------------------|---------------|---------------------|---------------|
|                  | 2016             | 2017             | 2016                | 2017          | 2016                | 2017          |
| Interest rate    | 1 148 509        | 1 468 213        | 15 899              | 12 197        | 15 206              | 10 148        |
| Equity           | 75 453           | 72 744           | 416                 | 345           | 416                 | 345           |
| Foreign exchange | 408 886          | 361 508          | 23 597              | 23 774        | 22 383              | 22 686        |
| Credit           | 50 000           | -                | 50                  | -             | -                   | -             |
| Commodity        | 120 593          | 31 007           | 4 852               | 168           | 4 807               | 165           |
| <b>Total</b>     | <b>1 803 441</b> | <b>1 933 472</b> | <b>44 814</b>       | <b>36 484</b> | <b>42 812</b>       | <b>33 344</b> |

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding.

This credit risk exposure is managed as a part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most cases requires margin deposits.

## 13) Financial assets - at fair value through profit or loss

Financial assets were designated as fair value through profit or loss at their initial recognition based on the intention of the Group to manage them on fair value basis.

| EUR ths.           | 2016         | 2017         |
|--------------------|--------------|--------------|
| Equity instruments | 6 118        | 5 602        |
| <b>Total</b>       | <b>6 118</b> | <b>5 602</b> |

The amounts represent the maximum exposure to credit risk.

## 14) Financial assets - available for sale

| EUR ths.                   | 2016             | 2017             |
|----------------------------|------------------|------------------|
| Equity instruments         | 35 387           | 47 886           |
| Debt securities            | 1 027 934        | 972 734          |
| General governments        | 841 430          | 800 553          |
| Credit institutions        | 60 644           | 51 204           |
| Non-financial corporations | 125 860          | 120 977          |
| <b>Total</b>               | <b>1 063 321</b> | <b>1 020 620</b> |

Uvedené účtovné hodnoty po znehodnotení predstavujú maximálnu expozíciu voči úverovému riziku.

As at 31 December 2017 financial assets available for sale measured at cost amounted less than 0,1 mil. Eur (2016: 0,7 mil. Eur) and comprised of other equity investments in Burza cenných papierov v Bratislave, a.s. and S Rail Lease s.r.o.

As at 31 December 2016 the Group held the investment in Poisťovňa Slovenskej sporiteľne, a.s. VIG in the amount of 0,7 mil. Eur as a financial asset available for sale measured at cost. This investment was revalued to fair value of 3,1 mil. Eur as at 31 December 2017.

On 21 June 2016 Visa INC. bought shares of Visa Europe Ltd. In relation to this transaction the Group derecognized the value of its investment in Visa Europe Ltd. in the actual amount of 26,7 mil. Eur (see note 7). The sale of the participation has been settled in cash amounting 19,4 mil. Eur, together with recognition of Visa INC. shares in the amount of 5,7 mil. Eur and recognition of a receivable from deferred payment in the amount of 1,6 mil.

Eur payable in three years time. As at 31 December 2017 the investment in Visa INC. was disclosed in the line item "Financial assets - available for sale" in the amount of 13,2 mil. Eur.

On 1 June 2016 the Group acquired 24,6 % share in associate company Global Payments, s.r.o. by contribution of POS terminals and relating transactions business (see note 9). Subsequently, the Bank sold 51 % of this share amounting 7,4 mil. Eur to Global Payments – Caixa Acquisition Corporation S.à r.l. Consequently, the share of the Bank in its associate Global Payments, s.r.o. decreased to 12,5 %. On 8 September 2016 the Group provided a cash and non-cash contribution (in the form of an investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30,99 % share in this company. As at 31 December 2017 the investment in Holding Card Service, spol. s r.o. was disclosed in the line item "Investments in subsidiaries and associates" in the amount of 7,0 mil. Eur.

## 15) Financial assets – held to maturity

| EUR ths.                   | Gross carrying amount |                  | Collective allowances |              | Net carrying amount |                  |
|----------------------------|-----------------------|------------------|-----------------------|--------------|---------------------|------------------|
|                            | 2016                  | 2017             | 2016                  | 2017         | 2016                | 2017             |
| General governments        | 2 577 372             | 2 542 292        | (243)                 | (238)        | 2 577 128           | 2 542 054        |
| Credit institutions        | 63 468                | 92 205           | (36)                  | (53)         | 63 433              | 92 153           |
| Non-financial corporations | 101                   | 10 232           | (1)                   | (37)         | 101                 | 10 195           |
| <b>Total</b>               | <b>2 640 941</b>      | <b>2 644 729</b> | <b>(280)</b>          | <b>(328)</b> | <b>2 640 662</b>    | <b>2 644 402</b> |

The amounts represent the maximum exposure to credit risk.

## 16) Loans and receivables to credit institutions

| EUR ths.            | Gross carrying amount |                | Collective allowances |          | Net carrying amount |                |
|---------------------|-----------------------|----------------|-----------------------|----------|---------------------|----------------|
|                     | 2016                  | 2017           | 2016                  | 2017     | 2016                | 2017           |
| Loans and advances  |                       |                |                       |          |                     |                |
| Credit institutions | 89 982                | 177 616        | (36)                  | -        | 89 946              | 177 616        |
| <b>Total</b>        | <b>89 982</b>         | <b>177 616</b> | <b>(36)</b>           | <b>-</b> | <b>89 946</b>       | <b>177 616</b> |

The amounts represent the maximum exposure to credit risk.

As at 31 December 2017 and at the end of the year 2016 the Bank had no reverse repo agreements.

As at 31 December 2016 the line item "Loans and receivables to credit institutions" included accounts repayable on demand in the amount of 31,0 mil. Eur. As at 31 December 2017 these accounts in the amount of 53,8 mil. Eur were presented in the line item "Cash and cash balances".

Allowances for loans and receivables to credit institutions were as follows:

| EUR ths.                     | 2016        | Allocations  | Releases   | 2017     |
|------------------------------|-------------|--------------|------------|----------|
| <b>Collective allowances</b> |             |              |            |          |
| Loans and advances           | (36)        | (599)        | 635        | -        |
| <b>Total</b>                 | <b>(36)</b> | <b>(599)</b> | <b>635</b> | <b>-</b> |

| EUR ths.                     | 2015        | Allocations  | Releases   | 2016        |
|------------------------------|-------------|--------------|------------|-------------|
| <b>Collective allowances</b> |             |              |            |             |
| Loans and advances           | (29)        | (407)        | 399        | (36)        |
| <b>Total</b>                 | <b>(29)</b> | <b>(407)</b> | <b>399</b> | <b>(36)</b> |

## 17) Loans and receivables to customers

| EUR ths.                        | Gross carrying amount |                   | Specific allowances |                  | Collective allowances |                 | Net carrying amount |                   |
|---------------------------------|-----------------------|-------------------|---------------------|------------------|-----------------------|-----------------|---------------------|-------------------|
|                                 | 2016                  | 2017              | 2016                | 2017             | 2016                  | 2017            | 2016                | 2017              |
| Loans and advances to customers |                       |                   |                     |                  |                       |                 |                     |                   |
| General governments             | 197 813               | 209 500           | (1)                 | (1)              | (252)                 | (294)           | 197 560             | 209 206           |
| Other financial corporations    | 83 351                | 95 196            | (7)                 | (300)            | (257)                 | (227)           | 83 087              | 94 669            |
| Non-financial corporations      | 2 201 388             | 2 618 652         | (94 663)            | (86 957)         | (22 041)              | (16 407)        | 2 084 684           | 2 515 287         |
| Households                      | 8 110 581             | 9 161 175         | (159 027)           | (202 537)        | (66 416)              | (58 067)        | 7 885 138           | 8 900 571         |
| <b>Total</b>                    | <b>10 593 133</b>     | <b>12 084 523</b> | <b>(253 698)</b>    | <b>(289 795)</b> | <b>(88 966)</b>       | <b>(74 995)</b> | <b>10 250 469</b>   | <b>11 719 733</b> |

In January 2017 the Group adjusted presentation of impaired loans. As a result, the gross carrying amount of impaired loans and their respective risk allowances increased, both by 45,4 mil. Eur. This presentation adjustment has affected neither the net carrying amount of impaired loans, nor profit of the Group.



Allowances for loans and receivables to customers were as follows:

| EUR ths.                        | 2016             | Allocati-<br>ons | Use           | Releases       | Interest in-<br>come from<br>impaired<br>loans | Other<br>changes<br>(+/-) | 2017             | Recover-<br>ies of<br>amounts<br>previously<br>written off | Amounts<br>written off |
|---------------------------------|------------------|------------------|---------------|----------------|------------------------------------------------|---------------------------|------------------|------------------------------------------------------------|------------------------|
| <b>Specific allowances</b>      |                  |                  |               |                |                                                |                           |                  |                                                            |                        |
| Loans and advances to customers | (253 698)        | (173 156)        | 9 272         | 123 504        | 8 214                                          | (3 933)                   | (289 795)        | 6 502                                                      | (882)                  |
| General governments             | (1)              | -                | -             | -              | -                                              | -                         | (1)              | -                                                          | -                      |
| Other financial corporations    | (7)              | (298)            | 3             | 1              | -                                              | -                         | (300)            | -                                                          | -                      |
| Non-financial corporations      | (94 663)         | (27 277)         | 7 639         | 29 760         | 560                                            | (2 977)                   | (86 957)         | 1 041                                                      | (141)                  |
| Households                      | (159 027)        | (145 581)        | 1 630         | 93 743         | 7 654                                          | (956)                     | (202 537)        | 5 461                                                      | (741)                  |
| <b>Collective allowances</b>    |                  |                  |               |                |                                                |                           |                  |                                                            |                        |
| Loans and advances to customers | (88 966)         | (132 129)        | 41 420        | 146 100        | -                                              | (41 420)                  | (74 995)         | -                                                          | -                      |
| General governments             | (252)            | (181)            | -             | 139            | -                                              | -                         | (294)            | -                                                          | -                      |
| Other financial corporations    | (257)            | (1 734)          | 6             | 1 763          | -                                              | (6)                       | (227)            | -                                                          | -                      |
| Non-financial corporations      | (22 041)         | (22 057)         | 2 594         | 27 691         | -                                              | (2 594)                   | (16 407)         | -                                                          | -                      |
| Households                      | (66 416)         | (108 157)        | 38 821        | 116 507        | -                                              | (38 821)                  | (58 067)         | -                                                          | -                      |
| <b>Total</b>                    | <b>(342 664)</b> | <b>(305 285)</b> | <b>50 693</b> | <b>269 604</b> | <b>8 214</b>                                   | <b>(45 354)</b>           | <b>(364 790)</b> | <b>6 502</b>                                               | <b>(882)</b>           |

| tis. EUR                        | 2015             | Allocati-<br>ons | Use           | Releases       | Interest in-<br>come from<br>impaired<br>loans | Other<br>chan-<br>ges and<br>exchange-<br>rate (+/-) | 2016             | Recover-<br>ies of<br>amounts<br>previously<br>written off | Amounts<br>written off |
|---------------------------------|------------------|------------------|---------------|----------------|------------------------------------------------|------------------------------------------------------|------------------|------------------------------------------------------------|------------------------|
| <b>Specific allowances</b>      |                  |                  |               |                |                                                |                                                      |                  |                                                            |                        |
| Loans and advances to customers | (275 470)        | (162 148)        | 59 149        | 115 958        | 8 813                                          | -                                                    | (253 698)        | 7 507                                                      | -                      |
| General governments             | (1)              | -                | -             | -              | -                                              | -                                                    | (1)              | -                                                          | -                      |
| Other financial corporations    | (55)             | (1)              | -             | 49             | -                                              | -                                                    | (7)              | -                                                          | -                      |
| Non-financial corporations      | (126 835)        | (66 652)         | 35 231        | 61 981         | 1 612                                          | -                                                    | (94 663)         | 5 399                                                      | -                      |
| Households                      | (148 579)        | (95 495)         | 23 918        | 53 928         | 7 201                                          | -                                                    | (159 027)        | 2 108                                                      | -                      |
| <b>Collective allowances</b>    |                  |                  |               |                |                                                |                                                      |                  |                                                            |                        |
| Loans and advances to customers | (79 459)         | (158 136)        | -             | 148 629        | -                                              | -                                                    | (88 966)         | -                                                          | -                      |
| General governments             | (449)            | (135)            | -             | 331            | -                                              | -                                                    | (252)            | -                                                          | -                      |
| Other financial corporations    | (303)            | (1 507)          | -             | 1 554          | -                                              | -                                                    | (257)            | -                                                          | -                      |
| Non-financial corporations      | (18 001)         | (38 385)         | -             | 34 344         | -                                              | -                                                    | (22 041)         | -                                                          | -                      |
| Households                      | (60 706)         | (118 109)        | -             | 112 400        | -                                              | -                                                    | (66 416)         | -                                                          | -                      |
| <b>Total</b>                    | <b>(354 929)</b> | <b>(320 284)</b> | <b>59 149</b> | <b>264 587</b> | <b>8 813</b>                                   | <b>-</b>                                             | <b>(342 664)</b> | <b>7 507</b>                                               | <b>-</b>               |

As at 31 December 2017, 15 largest customers accounted for 5,4 % of the gross loan portfolio amounting 652,4 mil. Eur (2016: 5,4 %, 575,6 mil. Eur).

## Mandate loans

During the year 2017 the Group cooperated with 13 external companies (2016: 10 companies). Following mandate contracts the management and administration of certain non-performing receivables is outsourced. In case of mandate loans, the Group maintains risks and rewards associated with the underlying exposures and shares recoveries with the external service providers.

As at 31 December 2017 the total amount of gross loans outsourced was 104,7 mil. Eur (2016: 139,0 mil. Eur).

## Write off and sale of receivables

During the year 2017 the Group sold loan receivables in the amount of 80,1 mil. Eur (2016: 56,8 mil. Eur) for a consideration of 14,8 mil. Eur (2016: 15,1 mil. Eur) and used the corresponding allowances amounting 71,2 mil. Eur (2016: 46,3 mil. Eur). Once

loan receivables are sold, the Group transfers all risks and rewards attributable to them and does not have any continuing involvement in the loan receivables subsequent to their sale.

In the year 2017 the Group has also written off loans with the amount of 10,4 mil. Eur (2016: 23,4 mil. Eur) and used the respective allowances amounting 9,4 mil. Eur (2016: 23,2 mil. Eur).

## Finance Leases

Loans and advances to customers also include net investments in finance leases. The principal assets held under lease arrangements include cars and other technical equipment.

As at 31 December 2017 the accumulated allowance for uncollectible minimum lease payments receivable amounted 0,7 mil. Eur (2016: 0,7 mil. Eur).

| EUR ths.                                  | 2016           | 2017           |
|-------------------------------------------|----------------|----------------|
| <b>Gross investment in finance leases</b> | <b>33 944</b>  | <b>78 266</b>  |
| Thereof:                                  |                |                |
| < 1 year                                  | 10 201         | 19 473         |
| 1-5 years                                 | 22 923         | 50 017         |
| > 5 years                                 | 820            | 8 776          |
| <b>Unearned income</b>                    | <b>(1 358)</b> | <b>(3 356)</b> |
| <b>Net investment in finance leases</b>   | <b>32 586</b>  | <b>74 910</b>  |
| Thereof:                                  |                |                |
| < 1 year                                  | 9 578          | 18 210         |
| 1-5 years                                 | 22 192         | 48 055         |
| > 5 years                                 | 816            | 8 645          |

## 18) Derivatives – hedge accounting

| EUR ths.          | Notional value |                | Positive fair value |              | Negative fair value |               |
|-------------------|----------------|----------------|---------------------|--------------|---------------------|---------------|
|                   | 2016           | 2017           | 2016                | 2017         | 2016                | 2017          |
| Fair value hedges | 397 821        | 397 821        | 7 705               | 6 761        | 52 389              | 42 100        |
| Interest rate     | 397 821        | 397 821        | 7 705               | 6 761        | 52 389              | 42 100        |
| <b>Total</b>      | <b>397 821</b> | <b>397 821</b> | <b>7 705</b>        | <b>6 761</b> | <b>52 389</b>       | <b>42 100</b> |

## Fair value hedge of assets

KAs at 31 December 2017 the Group held in portfolio of financial assets available for sale fixed rate bonds denominated in Eur with nominal value of 381,0 mil. Eur (2016: 381,0 mil. Eur). As the purchases of these bonds increased exposure to interest rate risk in the period from five to fifteen years, the Group entered into interest rate swap deals in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates.

During the year 2017 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Group recognised a net gain on the hedging instruments in the amount of 10,4 mil. Eur (2016: net loss 8,6 mil. Eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 10,1 mil. Eur (2016: net gain 8,4 mil. Eur).

## Fair value hedge of liabilities

In July 2007 the Group issued fixed rate mortgage bonds with maturity in July 2027 also disclosed in the note 25. At the same time the Group entered into interest rate swap deals in order to hedge interest rate risk. As at 31 December 2017 the notional value of these hedged mortgage bonds was 16,6 mil. Eur (2016: 16,6 mil. Eur).

During the year 2017 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Group recognised a net loss on the hedging instruments in the amount of 1,0 mil. Eur (2016: net gain 0,3 mil.

## 19) Investment in subsidiaries and associates

The consolidated financial statements include subsidiaries and associates disclosed in this note.

### Investment in subsidiaries

| EUR ths.               | Služby SLSP, s.r.o.                                   | Realitná spoločnosť Slovenskej sporiteľne, a.s. (100% subsidiary of Služby SLSP, s.r.o.) | Laned,a.s. (100% subsidiary of Služby SLSP, s.r.o.)   | Procurement Services SK, s.r.o..                      |
|------------------------|-------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|
| Place of business      | Tomášikova 48<br>832 01 Bratislava<br>Slovak Republic | Tomášikova 48<br>832 10 Bratislava<br>Slovak Republic                                    | Tomášikova 48<br>832 71 Bratislava<br>Slovak Republic | Tomášikova 48<br>832 75 Bratislava<br>Slovak Republic |
| Main business activity | Ancillary bank services                               | Real estate agency                                                                       | SPE-Real estate company                               | Procurement                                           |
| Ownership held         | 100 %                                                 | 100 %                                                                                    | 100 %                                                 | 51 %                                                  |
| Voting rights held     | 100 %                                                 | 100 %                                                                                    | 100 %                                                 | 51 %                                                  |

### Changes during the year 2017

In January 2017 the Group sold its share in the company R.V.S., a.s., previously recognized in the line item "Financial assets - available for sale" at nil carrying amount. The sale proceeds amounted 0,3 mil. Eur.

In July 2017 the company S Rail Lease s.r.o. was established, in which the Group holds 3 % share. As at 31 December 2017 this investment was disclosed in the line item "Financial assets - available for sale" in the amount of 0,1 tis. Eur.

### Changes during the year 2016

On 1 April 2016 the subsidiary Erste Group IT SK, spol. s r.o. s was merged with the Bank.

The company s IT Solutions SK, spol. s r.o. in liquidation did not perform any economic activities in the years 2015 and 2016 and therefore nil values of assets and liabilities were presented. On 18 May 2016 an extraordinary general assembly of this company decided on liquidation finalisation and approved distribution of a liquidation residue among its shareholders. Slovenská sporiteľňa, a.s. as a shareholder with 23,5 % share received a liquidation payment in the amount of 114 151,68 Eur.

On 1 June 2016 the Group acquired 24,6 % share in an associate Global Payments, s.r.o. seated in Czech republic by a contribution of POS terminals and related transactions business. Through this transaction the Group realized an extraordinary gain in the amount of 14,5 mil. Eur (note 9).

Subsequently, the Group sold 51 % of this share amounting 7,4 mil. Eur to the company Global Payments – Caixa Acquisition Corporation S.à r.l. As a result, the share of the Bank in the company Global Payments, s.r.o. decreased to 12,5 % and was disclosed in the amount of 7,1 mil. Eur in the line item "Financial assets - available for sale" (note 14).

On 8 September 2016 the Bank provided a cash and non-cash contribution (in the form of investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30,99 % share in this company.

On 20 May 2016 the subsidiary Derop B.V. increased its capital funds, whereby the Bank's contribution as a 85 % shareholder amounted 68 000,00 Eur.

On 4 August 2016 SLSP acquired the residual share (15 %) of the subsidiary Derop B.V. and became its 100 % shareholder. The purchase price was 2 977 683,00 Eur.

On 28 October 2016 the subsidiary Služby SLSP, s.r.o. decreased its capital funds, whereby the Bank received the amount of 7 447 672,00 Eur. By this amount the investment of Služby SLSP, s.r.o. was decreased.

On 30 December 2016 the subsidiary Derop B.V. was merged with the subsidiary Služby SLSP, s.r.o. In the scope of consolidation of SLSP still remain the company Laned, a.s. that has become a subsidiary of Služby SLSP, s.r.o. after merge its parent company Derop B.V..

## Investment in associates

| EUR ths.                                                           | Prvá stavebná sporiteľňa, a.s.<br>(„PSS“)            |       | Slovak Banking<br>Credit Bureau                          |      | Holding Card Service,<br>spol. s r. o.                  |      |
|--------------------------------------------------------------------|------------------------------------------------------|-------|----------------------------------------------------------|------|---------------------------------------------------------|------|
|                                                                    | 2016                                                 | 2017  | 2016                                                     | 2017 | 2016                                                    | 2017 |
| Place of business                                                  | Bajkalská 30<br>829 48 Bratislava<br>Slovak Republic |       | Mlynské nivy 14<br>821 09 Bratislava,<br>Slovak Republic |      | Olbrachtova 1929/62<br>140 00 Praha 4<br>Czech Republic |      |
| Main business activity                                             | Banking                                              |       | Retail credit register                                   |      | Equity release company                                  |      |
| Ownership held                                                     | 9.98%                                                |       | 33.33%                                                   |      | 30.99%                                                  |      |
| Voting rights held                                                 | 35.00%                                               |       | 33.33%                                                   |      | 30.99%                                                  |      |
| IFRS Classification (JV/A)                                         | Associate                                            |       | Associate                                                |      | Associate                                               |      |
| Reporting currency                                                 | EURO                                                 |       | EURO                                                     |      | EURO                                                    |      |
| Dividend income received                                           | 2 270                                                | 2 038 | -                                                        | -    | -                                                       | -    |
| Impairment loss recognized (cumulative basis)                      | -                                                    | -     | -                                                        | -    | -                                                       | -    |
| Impairment loss recognized (for the reporting year)                | -                                                    | -     | -                                                        | -    | -                                                       | -    |
| Loan commitments, financial guarantees and other commitments given | -                                                    | -     | -                                                        | -    | -                                                       | -    |

### Investee's key financial information for the reporting year (as at reporting year-end)

|                                            |           |           |     |     |        |        |
|--------------------------------------------|-----------|-----------|-----|-----|--------|--------|
| Cash and cash balances                     | 250       | 435       | 318 | 211 | 13     | 7      |
| Other financial assets                     | 2 701 401 | 2 864 354 | 38  | 20  | -      | -      |
| Non-financial assets                       | 78 530    | 78 783    | 10  | 2   | 22 686 | 24 016 |
| Current liabilities                        | 2 514 494 | 2 684 222 | 211 | 27  | -      | -      |
| Non-current liabilities                    | 33 158    | 24 150    | 7   | 6   | -      | 7      |
| Operating Income                           | 41 210    | 42 392    | 5   | 63  | (9)    | (4)    |
| Post-tax result from continuing operations | 17 644    | 16 943    | (3) | 55  | (9)    | (4)    |
| Other comprehensive income                 | 2 561     | 1 221     | -   | -   | -      | -      |
| Total comprehensive income                 | 20 205    | 18 164    | (3) | 55  | (9)    | (4)    |
| Depreciation and amortization              | (3 809)   | (3 966)   | (7) | (7) | -      | -      |
| Interest income                            | 104 646   | 99 151    | -   | -   | -      | -      |
| Interest expense                           | (49 547)  | (45 338)  | -   | (1) | -      | -      |
| Tax expense/income                         | (6 396)   | (5 363)   | -   | -   | -      | -      |

As at 31 December 2017 the Bank held 9.98 % share of Prvá stavebná sporiteľňa, a.s. (hereafter 'PSS'), alike in the year 2016. In accordance with a contract with Erste Group Bank AG, the Bank acts on behalf of its parent company, which held 25.02 % shares in PSS in both presented years. In the year 2004, in accordance with the approval of the National Bank of Slovakia, the Bank has nominated a representative in the Supervisory Board of PSS, who replaced a representative of Erste Group Bank AG. Consequently the Bank has established significant influence in PSS and therefore the Bank's investment in PSS is presented as an associate.

## 20) Property, equipment and other assets

### Cost

| tis. EUR                          | Land and buildings | Office equipment / other fixed assets | IT assets (hardware) | Movable other property | Property and equipment | Investment properties |
|-----------------------------------|--------------------|---------------------------------------|----------------------|------------------------|------------------------|-----------------------|
| <b>Balance as of 31. 12. 2015</b> | <b>291 754</b>     | <b>67 463</b>                         | <b>54 734</b>        | <b>5 044</b>           | <b>418 996</b>         | <b>7 495</b>          |
| Additions in current year         | 5 140              | 3 336                                 | 4 665                | 196                    | 13 336                 | -                     |
| Disposals                         | (21 624)           | (4 221)                               | (414)                | (5 239)                | (31 498)               | (461)                 |
| Reclassification                  | 373                | (1)                                   | -                    | 1                      | 371                    | (373)                 |
| <b>Balance as of 31. 12. 2016</b> | <b>275 642</b>     | <b>66 576</b>                         | <b>58 985</b>        | <b>2</b>               | <b>401 205</b>         | <b>6 661</b>          |
| Additions in current year         | 6 255              | 3 661                                 | 3 740                | -                      | 13 656                 | -                     |
| Disposals                         | (18 821)           | (6 984)                               | (15 027)             | (2)                    | (40 833)               | -                     |
| Reclassification                  | 403                | -                                     | -                    | -                      | 403                    | (403)                 |
| <b>Balance as of 31. 12. 2017</b> | <b>263 480</b>     | <b>63 254</b>                         | <b>47 697</b>        | <b>0</b>               | <b>374 431</b>         | <b>6 257</b>          |

### Accumulated depreciation

| tis. EUR                          | Land and buildings | Office equipment / other fixed assets | IT assets (hardware) | Movable other property | Property and equipment | Investment properties |
|-----------------------------------|--------------------|---------------------------------------|----------------------|------------------------|------------------------|-----------------------|
| <b>Balance as of 31. 12. 2015</b> | <b>(136 981)</b>   | <b>(57 574)</b>                       | <b>(40 829)</b>      | <b>(372)</b>           | <b>(235 758)</b>       | <b>(4 615)</b>        |
| Amortisation and depreciation     | (11 831)           | (3 665)                               | (4 978)              | (355)                  | (20 828)               | (220)                 |
| Disposals                         | 11 915             | 4 167                                 | 398                  | 730                    | 17 208                 | 263                   |
| Impairment                        | (1 819)            | -                                     | -                    | -                      | (1 819)                | -                     |
| Reversal of impairment (+)        | 2 384              | -                                     | -                    | -                      | 2 384                  | 55                    |
| Reclassification                  | (244)              | 1                                     | (0)                  | -                      | (243)                  | 244                   |
| <b>Balance as of 31. 12. 2016</b> | <b>(136 576)</b>   | <b>(57 070)</b>                       | <b>(45 409)</b>      | <b>3</b>               | <b>(239 055)</b>       | <b>(4 272)</b>        |
| Amortisation and depreciation     | (10 912)           | (3 640)                               | (5 057)              | -                      | (19 609)               | (232)                 |
| Disposals                         | 11 829             | 6 823                                 | 15 022               | (3)                    | 33 673                 | -                     |
| Impairment                        | (4 028)            | -                                     | -                    | -                      | (4 028)                | -                     |
| Reversal of impairment            | 4 389              | -                                     | -                    | -                      | 4 389                  | 41                    |
| Reclassification                  | (237)              | -                                     | -                    | -                      | (237)                  | 237                   |
| <b>Balance as of 31. 12. 2017</b> | <b>(135 534)</b>   | <b>(53 887)</b>                       | <b>(35 445)</b>      | <b>(0)</b>             | <b>(224 866)</b>       | <b>(4 227)</b>        |



## Carrying amount

| tis. EUR                   | Land and buildings | Office equipment / other fixed assets | IT assets (hardware) | Movable other property | Property and equipment | Investment properties |
|----------------------------|--------------------|---------------------------------------|----------------------|------------------------|------------------------|-----------------------|
| Balance as of 31. 12. 2016 | 139 067            | 9 506                                 | 13 575               | 5                      | 162 150                | 2 388                 |
| Balance as of 31. 12. 2017 | 127 946            | 9 366                                 | 12 252               | (0)                    | 149 564                | 2 031                 |

Cost of property and equipment, which are fully depreciated but still used by the Group as at 31 December 2017 amounted 73,2 mil. Eur (2016: 87,3 mil. Eur) and includes various types of tangible fixed assets.

As at 31 December 2017 the Group owned property and equipment not yet put in use in the amount of 3,6 mil. Eur (2016: 2,6 mil. Eur).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

### Investment properties

As at 31 December 2017 the carrying amount of investment properties was 2,0 mil. Eur (2016: 2,4 mil. Eur). Total rental income earned on this property for the year 2017 amounted 0,3 mil. Eur (2016: 0,4 mil. Eur) and is separately presented in the line item 'Rental income from investment properties & other operating leases'. Depreciation of rented property for the year 2017 amounted 0,2 mil. Eur (2016: 0,2 mil. Eur) and is presented in the line item 'Depreciation'.

## Operating leases

Summary of future minimum lease payments under non-cancellable operating leases where the Group acts as lessee:

| EUR ths.     | 2016          | 2017          |
|--------------|---------------|---------------|
| < 1 year     | 7 596         | 15 555        |
| 1-5 years    | 15 785        | 46 364        |
| > 5 years    | 1 989         | 7 030         |
| <b>Total</b> | <b>25 370</b> | <b>68 949</b> |

The Group does not act as a lessor in any non-cancellable operating lease transaction.

## 21) Intangible assets

### Cost

| EUR ths.                          | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total          |
|-----------------------------------|-------------------|--------------------------------------------|----------------------------------|----------------|
| Balance as of 31. 12. 2015        | 219 204           | 46 361                                     | 3 292                            | 268 856        |
| Additions                         | 5 333             | 4 816                                      | 91                               | 10 240         |
| Disposals                         | (3 809)           | -                                          | (217)                            | (4 026)        |
| <b>Balance as of 31. 12. 2016</b> | <b>220 728</b>    | <b>51 177</b>                              | <b>3 166</b>                     | <b>275 071</b> |
| Additions                         | 8 500             | (75)                                       | 1                                | 8 427          |
| Disposals                         | -                 | -                                          | (24)                             | (24)           |
| <b>Balance as of 31. 12. 2017</b> | <b>229 228</b>    | <b>51 103</b>                              | <b>3 143</b>                     | <b>283 474</b> |

## Accumulated amortisation

| EUR ths.                          | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total            |
|-----------------------------------|-------------------|--------------------------------------------|----------------------------------|------------------|
| <b>Balance as of 31. 12. 2015</b> | <b>(171 968)</b>  | <b>(7 032)</b>                             | <b>(2 885)</b>                   | <b>(181 885)</b> |
| Amortisation and depreciation     | (17 265)          | (7 756)                                    | (235)                            | (25 256)         |
| Disposals                         | 3 809             | -                                          | 217                              | 4 026            |
| <b>Balance as of 31. 12. 2016</b> | <b>(185 424)</b>  | <b>(14 788)</b>                            | <b>(2 903)</b>                   | <b>(203 116)</b> |
| Amortisation and depreciation     | (16 997)          | (7 764)                                    | (164)                            | (24 925)         |
| Disposals                         | -                 | -                                          | 24                               | 24               |
| <b>Balance as of 31. 12. 2017</b> | <b>(202 422)</b>  | <b>(22 552)</b>                            | <b>(3 043)</b>                   | <b>(228 017)</b> |

## Carrying amount

| EUR ths.                          | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total         |
|-----------------------------------|-------------------|--------------------------------------------|----------------------------------|---------------|
| <b>Balance as of 31. 12. 2016</b> | <b>35 304</b>     | <b>36 389</b>                              | <b>263</b>                       | <b>71 955</b> |
| <b>Balance as of 31. 12. 2017</b> | <b>26 806</b>     | <b>28 551</b>                              | <b>100</b>                       | <b>55 457</b> |

Cost of intangible assets, which are fully depreciated but still used by the Group as at 31 December 2017 amounted 110,1 mil. Eur (2016: 91,3 mil. Eur).

As at 31 December 2017 the Group owned intangible assets not yet put in use in the amount of 5,8 mil. Eur (2016: 5,9 mil. Eur). During the year 2017 the Group put in use upgrade of the core banking system, which amounted 7,1 mil. Eur (2016: 6,0 mil. Eur).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

## 22) Tax assets and liabilities

The structure of tax assets and liabilities was as follows:

| EUR ths.                                                       | Tax assets    |               | Tax liabilities |                 | Net variance 2017      |                                    |              |
|----------------------------------------------------------------|---------------|---------------|-----------------|-----------------|------------------------|------------------------------------|--------------|
|                                                                | 2016          | 2017          | 2016            | 2017            | Through profit or loss | Through other comprehensive income | Total        |
| <b>Assets</b>                                                  |               |               |                 |                 |                        |                                    |              |
| Financial assets available for sale                            | -             | -             | (22 033)        | (25 094)        | (174)                  | (2 888)                            | (3 062)      |
| Loans and receivables                                          | 46 022        | 46 612        | -               | -               | 590                    | -                                  | 590          |
| Tangible assets                                                | -             | 88            | (2 849)         | (2 005)         | 933                    | -                                  | 933          |
| Tax loss carried forward                                       | 1 910         | 777           | -               | -               | (1 045)                | -                                  | (1 045)      |
| <b>Liabilities</b>                                             |               |               |                 |                 |                        |                                    |              |
| Liabilities measured at amortised cost                         | -             | -             | (5 146)         | -               | -                      | -                                  | -            |
| Provisions                                                     | 2 414         | 3 450         | -               | -               | 1 035                  | -                                  | 1 035        |
| Pensions and other post employment defined benefit obligations | 985           | 626           | -               | -               | (487)                  | 128                                | (359)        |
| Other                                                          | 12 814        | 9 257         | (106)           | -               | 1 735                  | -                                  | 1 735        |
|                                                                | 7 809         | 12 814        | -               | (106)           | (4 899)                | -                                  |              |
| Gross deferred taxes                                           |               |               |                 |                 |                        |                                    |              |
|                                                                | <b>64 145</b> | <b>60 810</b> | <b>(30 134)</b> | <b>(27 099)</b> | <b>2 588</b>           | <b>(2 760)</b>                     | <b>(172)</b> |
| Net deferred taxes                                             |               |               |                 |                 |                        |                                    |              |
| Total current taxes                                            | 34 030        | 33 711        | (106)           | -               |                        |                                    |              |
| Total taxes                                                    | 8             | 10 634        | (4 013)         | (1)             |                        |                                    |              |
| <b>Celkové dane</b>                                            | <b>34 037</b> | <b>44 344</b> | <b>(4 120)</b>  | <b>(1)</b>      |                        |                                    |              |

The Group applies conservative approach for the recognition of deferred tax assets and liabilities. Deferred tax liabilities are recognised in their full amount. Deferred tax assets are recognised only up to the amount, in which the Group expects realisation of tax benefits in the future.

Deferred tax assets and liabilities are offset in accordance with the Group's accounting policy.

Further information on taxes on income are disclosed in the note 10.

## 23) Other assets

| EUR ths.                                         | 2016          | 2017          |
|--------------------------------------------------|---------------|---------------|
| Client settlement                                | 8 120         | 6 813         |
| Trade receivables                                | 9 689         | 10 203        |
| Personnel balances                               | 6 357         | 6 033         |
| State budget, social and health insurance, taxes | -             | 1 663         |
| Sundry assets                                    | 202           | 433           |
| <b>Total</b>                                     | <b>24 368</b> | <b>25 145</b> |

## 24) Financial liabilities measured at amortised costs

### Deposits from banks

| EUR ths.              | 2016           | 2017           |
|-----------------------|----------------|----------------|
| Overnight deposits    | 3 157          | 3 086          |
| Term deposits         | 147 764        | 406 621        |
| Repurchase agreements | 127 272        | 78 857         |
| <b>Total</b>          | <b>278 193</b> | <b>488 564</b> |

### Deposits from customers

| EUR ths.                                             | 2016              | 2017              |
|------------------------------------------------------|-------------------|-------------------|
| <b>Overnight deposits</b>                            | <b>6 047 519</b>  | <b>6 843 731</b>  |
| Non-savings deposits                                 | 6 047 519         | 6 843 731         |
| General governments                                  | 88 624            | 84 854            |
| Other financial corporations                         | 221 394           | 262 002           |
| Non-financial corporations                           | 1 309 639         | 1 344 789         |
| Households                                           | 4 427 862         | 5 152 086         |
| <b>Term deposits – Deposits with agreed maturity</b> | <b>2 944 383</b>  | <b>2 814 788</b>  |
| Non-savings deposits                                 | 2 944 383         | 2 814 788         |
| General governments                                  | 103 369           | 351 532           |
| Other financial corporations                         | 125 611           | 264 724           |
| Non-financial corporations                           | 286 093           | 320 705           |
| Households                                           | 2 429 310         | 1 877 827         |
| <b>Deposits redeemable at notice</b>                 | <b>2 392 407</b>  | <b>2 819 373</b>  |
| Households                                           | 2 392 407         | 2 819 373         |
| <b>General governments</b>                           | <b>191 993</b>    | <b>436 386</b>    |
| <b>Other financial corporations</b>                  | <b>347 005</b>    | <b>526 726</b>    |
| <b>Non-financial corporations</b>                    | <b>1 595 732</b>  | <b>1 665 494</b>  |
| <b>Households</b>                                    | <b>9 249 579</b>  | <b>9 849 286</b>  |
| <b>Total</b>                                         | <b>11 384 309</b> | <b>12 477 892</b> |

As at 31 December 2017, no deposits from customers were collateralised by securities (neither at the year-end 2016).

As at 31 December 2017, no embedded derivatives were included in deposits from customers (neither at the year-end 2016).

As at 31 December 2017 liabilities related to settlement of

securities transactions and clearing of payment transactions in the amount of 91,0 mil. Eur are disclosed in the line item 'Other financial liabilities'. In the year 2016 these liabilities amounted 74,5 mil. Eur and were presented as client settlement in the line item 'Other liabilities'.

## 25) Debt securities issued

| EUR ths.                         | 2016             | 2017             |
|----------------------------------|------------------|------------------|
| Subordinated liabilities         | 74 785           | 77 446           |
| Subordinated issues and deposits | 74 785           | 77 446           |
| Other debt securities issued     | 1 242 622        | 1 489 770        |
| Bonds / Certificates             | 139 311          | 185 656          |
| Mortgage covered bonds           | 1 103 311        | 1 304 114        |
| <b>Total</b>                     | <b>1 317 407</b> | <b>1 567 216</b> |

### Subordinated debt securities issued

The subordinated debt securities issued listed in the following table and marked as 'Subordinated bonds\*' included embedded derivatives, which were separated and disclosed on the balance sheet line item 'Financial liabilities – held for trading'. As at 31 December 2017 fair value of these derivatives amounted 0,2 mil. Eur (2016: 0,9 mil. Eur).

The interest rate shown below represents actual interest expense of the Group.

| EUR ths.            | Issue Date    | Maturity Date | Interest Rate | Number of securities | Nominal | Currency | 2016          | 2017          |
|---------------------|---------------|---------------|---------------|----------------------|---------|----------|---------------|---------------|
| Subordinated Bonds  | June 2011     | June 2018     | 4,25%         | 700                  | 10 000  | EUR      | 6 850         | 6 956         |
| Subordinated Bonds  | June 2011     | June 2018     | 4,90%         | 132                  | 50 000  | EUR      | 6 611         | 6 611         |
| Subordinated Bonds* | October 2011  | October 2018  | 4,00%         | 543                  | 10 000  | EUR      | 5 222         | 5 345         |
| Subordinated Bonds* | December 2011 | December 2018 | 4,00%         | 407                  | 10 000  | EUR      | 3 885         | 3 965         |
| Subordinated Bonds* | August 2010   | August 2020   | 4,30%         | 10 000               | 1 000   | EUR      | 12 456        | 12 945        |
| Subordinated Bonds* | August 2011   | August 2021   | 4,30%         | 10 000               | 1 000   | EUR      | 11 940        | 12 420        |
| Subordinated Bonds* | June 2012     | June 2022     | 5,80%         | 11 000               | 1 000   | EUR      | 13 005        | 13 721        |
| Subordinated Bonds* | November 2012 | November 2022 | 4,30%         | 9 000                | 1 000   | EUR      | 9 918         | 10 371        |
| Subordinated Bonds* | November 2011 | November 2023 | 4,58%         | 4 250                | 1 000   | EUR      | 4 897         | 5 114         |
| <b>Total</b>        |               |               |               |                      |         |          | <b>74 785</b> | <b>77 446</b> |

### Other debt securities issued

All securities listed in the following table are issued in book-entry form as bearer or registered securities with annual or semi-annual coupon payments. Their transferability is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to these securities. All securities are unsecured. The bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2017, other debt securities issued included embedded derivatives (equity and commodities) in the amount of 0,3 mil. Eur (2016: 0,4 mil. Eur), which were separated and are disclosed in the line items 'Financial assets – held for trading' and 'Financial liabilities – held for trading'.

The interest rate shown below represents actual interest expense of the Group.



| EUR ths.                | Issue Date     | Maturity Date  | Interest Rate | Number of securities | Nominal | Currency | 2016    | 2017    |
|-------------------------|----------------|----------------|---------------|----------------------|---------|----------|---------|---------|
| Mortgage Covered Bonds  | July 2012      | January 2017   | -             | -                    | 1 000   | EUR      | 8 089   | -       |
| Investment Certificates | January 2016   | January 2017   | -             | -                    | 50 000  | NOK      | 1 214   | -       |
| Investment Certificates | February 2016  | February 2017  | -             | -                    | 50 000  | NOK      | 535     | -       |
| Senior Unsecured Bonds  | March 2011     | March 2017     | -             | -                    | 50 000  | EUR      | 2 473   | -       |
| Mortgage Covered Bonds  | April 2014     | April 2017     | -             | -                    | 50 000  | EUR      | 15 082  | -       |
| Mortgage Covered Bonds  | May 2012       | May 2017       | -             | -                    | 50 000  | EUR      | 35 768  | -       |
| Senior Unsecured Bonds  | May 2014       | May 2017       | -             | -                    | 5 000   | PLN      | 1 087   | -       |
| Investment Certificates | February 2017  | June 2017      | -             | -                    | 100 000 | CZK      | -       | -       |
| Investment Certificates | February 2017  | June 2017      | -             | -                    | 100 000 | CZK      | -       | -       |
| Mortgage Covered Bonds  | June 2012      | June 2017      | -             | -                    | 50 000  | EUR      | 20 323  | -       |
| Investment Certificates | June 2016      | June 2017      | -             | -                    | 1 000   | EUR      | 392     | -       |
| Mortgage Covered Bonds  | July 2014      | July 2017      | -             | -                    | 50 000  | EUR      | 56 000  | -       |
| Senior Unsecured Bonds  | July 2014      | July 2017      | -             | -                    | 100     | EUR      | 2 054   | -       |
| Mortgage Covered Bonds  | February 2011  | August 2017    | -             | -                    | 50 000  | EUR      | 2 586   | -       |
| Investment Certificates | October 2016   | October 2017   | -             | -                    | 10 000  | EUR      | 1 186   | -       |
| Mortgage Covered Bonds  | October 2012   | October 2017   | -             | -                    | 50 000  | EUR      | 15 050  | -       |
| Investment Certificates | July 2017      | November 2017  | -             | -                    | 100 000 | CZK      | -       | -       |
| Mortgage Covered Bonds  | February 2013  | February 2018  | 1,75%         | 460                  | 50 000  | EUR      | 23 353  | 23 353  |
| Investment Certificates | March 2016     | March 2018     | 3,45%         | 1 260                | 1 000   | EUR      | 1 339   | 1 284   |
| Mortgage Covered Bonds  | March 2015     | March 2018     | 0,50%         | 250                  | 100 000 | EUR      | 25 102  | 25 102  |
| Mortgage Covered Bonds  | March 2014     | March 2018     | 1,22%         | 400                  | 50 000  | EUR      | 20 197  | 20 197  |
| Mortgage Covered Bonds  | March 2015     | March 2018     | 0,44%         | 100                  | 100 000 | EUR      | 10 035  | 10 035  |
| Mortgage Covered Bonds  | March 2016     | March 2018     | 0,13%         | 620                  | 100 000 | EUR      | 62 005  | 62 052  |
| Investment Certificates | March 2016     | March 2018     | 3,05%         | 734                  | 1 000   | EUR      | 775     | 746     |
| Mortgage Covered Bonds  | March 2015     | March 2018     | 0,01%         | 240                  | 100 000 | EUR      | 24 003  | 24 000  |
| Investment Certificates | April 2017     | April 2018     | 7,65%         | 58                   | 10 000  | EUR      | -       | 627     |
| Investment Certificates | July 2017      | July 2018      | 7,30%         | 121                  | 5 000   | EUR      | -       | 656     |
| Mortgage Covered Bonds  | August 2014    | August 2018    | 0,50%         | 900                  | 50 000  | EUR      | 45 021  | 45 058  |
| Mortgage Covered Bonds  | September 2012 | September 2018 | 2,85%         | 9 934                | 1 000   | EUR      | 10 052  | 10 008  |
| Investment Certificates | November 2015  | November 2018  | 4,00%         | 570                  | 1 000   | EUR      | 621     | 595     |
| Investment Certificates | November 2017  | November 2018  | 7,00%         | 300                  | 5 000   | EUR      | -       | 1 741   |
| Investment Certificates | November 2017  | November 2018  | 7,00%         | 296                  | 5 000   | EUR      | -       | 1 497   |
| Senior Unsecured Bonds  | December 2012  | December 2018  | 2,00%         | 1 836                | 1 000   | EUR      | 2 020   | 1 839   |
| Mortgage Covered Bonds  | December 2013  | December 2018  | 0,18%         | 600                  | 50 000  | EUR      | 30 003  | 30 002  |
| Investment Certificates | December 2013  | December 2018  | 5,00%         | 612                  | 1 000   | EUR      | 658     | 635     |
| Mortgage Covered Bonds  | February 2015  | February 2019  | 0,11%         | 500                  | 100 000 | EUR      | 50 038  | 50 021  |
| Mortgage Covered Bonds  | February 2013  | February 2019  | 2,30%         | 4 945                | 1 000   | EUR      | 4 994   | 4 986   |
| Mortgage Covered Bonds  | March 2016     | March 2019     | 0,13%         | 60                   | 100 000 | EUR      | 6 004   | 6 002   |
| Mortgage Covered Bonds  | March 2013     | March 2019     | 2,30%         | 4 895                | 1 000   | EUR      | 4 962   | 4 929   |
| Investment Certificates | March 2014     | March 2019     | 4,00%         | 784                  | 1 000   | EUR      | 846     | 822     |
| Investment Certificates | March 2014     | March 2019     | 5,25%         | 514                  | 5 000   | PLN      | 617     | 640     |
| Investment Certificates | April 2016     | April 2019     | 3,40%         | 639                  | 1 000   | EUR      | 697     | 674     |
| Mortgage Covered Bonds  | April 2013     | April 2019     | 2,30%         | 4 906                | 1 000   | EUR      | 4 977   | 4 930   |
| Mortgage Covered Bonds  | May 2017       | May 2019       | 0,00%         | 1 000                | 100 000 | EUR      | -       | 99 932  |
| Investment Certificates | July 2016      | July 2019      | 2,80%         | 340                  | 1 000   | EUR      | 372     | 361     |
| Mortgage Covered Bonds  | August 2013    | August 2019    | 2,00%         | 2 565                | 1 000   | EUR      | 2 592   | 2 586   |
| Mortgage Covered Bonds  | August 2013    | August 2019    | 2,00%         | 4 275                | 1 000   | EUR      | 4 319   | 4 306   |
| Senior Unsecured Bonds  | September 2014 | September 2019 | 1,07%         | 1 000                | 100 000 | EUR      | 100 297 | 100 296 |
| Mortgage Covered Bonds  | September 2013 | September 2019 | 2,00%         | 6 387                | 1 000   | EUR      | 6 439   | 6 422   |
| Senior Unsecured Bonds  | September 2014 | September 2019 | 1,50%         | 14 359               | 1 000   | EUR      | 14 642  | 14 414  |
| Mortgage Covered Bonds  | October 2013   | October 2019   | 2,00%         | 5 870                | 1 000   | EUR      | 5 899   | 5 893   |
| Mortgage Covered Bonds  | November 2013  | November 2019  | 2,00%         | 6 653                | 1 000   | EUR      | 6 685   | 6 668   |
| Senior Unsecured Bonds  | December 2013  | December 2019  | 1,50%         | 572                  | 1 000   | EUR      | 637     | 610     |
| Mortgage Covered Bonds  | December 2013  | December 2019  | 2,05%         | 70                   | 50 000  | EUR      | 3 504   | 3 504   |
| Mortgage Covered Bonds  | December 2012  | December 2019  | 2,50%         | 66                   | 50 000  | EUR      | 3 305   | 3 305   |
| Mortgage Covered Bonds  | June 2013      | December 2019  | 0,02          | 4 164                | 1 000   | EUR      | 4 180   | 4 168   |

| EUR ths.                | Issue Date     | Maturity Date  | Interest Rate | Number of securities | Nominal | Currency | 2016             | 2017             |
|-------------------------|----------------|----------------|---------------|----------------------|---------|----------|------------------|------------------|
| Mortgage Covered Bonds  | December 2013  | December 2019  | 2,00%         | 9 610                | 1 000   | EUR      | 9 634            | 9 616            |
| Mortgage Covered Bonds  | July 2013      | January 2020   | 2,00%         | 2 226                | 1 000   | EUR      | 2 256            | 2 247            |
| Investment Certificates | February 2016  | February 2020  | 4,10%         | 131                  | 5 000   | EUR      | 755              | 726              |
| Investment Certificates | February 2016  | February 2020  | 4,20%         | 210                  | 1 000   | EUR      | 254              | 233              |
| Mortgage Covered Bonds  | March 2015     | March 2020     | 1,25%         | 4 244                | 1 000   | EUR      | 4 262            | 4 262            |
| Mortgage Covered Bonds  | June 2015      | June 2020      | 1,20%         | 4 947                | 1 000   | EUR      | 4 961            | 4 950            |
| Investment Certificates | June 2016      | June 2020      | 3,70%         | 400                  | 1 000   | EUR      | 453              | 438              |
| Mortgage Covered Bonds  | July 2015      | July 2020      | 1,20%         | 4 972                | 1 000   | EUR      | 5 016            | 4 998            |
| Mortgage Covered Bonds  | July 2015      | July 2020      | 0,88%         | 500                  | 100 000 | EUR      | 50 090           | 50 116           |
| Mortgage Covered Bonds  | February 2014  | August 2020    | 2,00%         | 9 937                | 1 000   | EUR      | 10 027           | 10 017           |
| Investment Certificates | August 2016    | August 2020    | 3,00%         | 339                  | 1 000   | EUR      | 384              | 373              |
| Mortgage Covered Bonds  | August 2015    | August 2020    | 1,20%         | 4 997                | 1 000   | EUR      | 5 018            | 5 018            |
| Mortgage Covered Bonds  | September 2015 | September 2020 | 1,20%         | 4 315                | 1 000   | EUR      | 4 346            | 4 329            |
| Mortgage Covered Bonds  | October 2015   | October 2020   | 1,20%         | 3 552                | 1 000   | EUR      | 3 581            | 3 559            |
| Mortgage Covered Bonds  | November 2015  | November 2020  | 0,63%         | 400                  | 100 000 | EUR      | 40 024           | 40 028           |
| Mortgage Covered Bonds  | November 2014  | November 2020  | 0,88%         | 150                  | 100 000 | EUR      | 15 016           | 15 016           |
| Mortgage Covered Bonds  | May 2016       | November 2020  | 0,13%         | 500                  | 100 000 | EUR      | 50 011           | 50 007           |
| Mortgage Covered Bonds  | November 2015  | November 2020  | 1,20%         | 3 005                | 1 000   | EUR      | 3 081            | 3 008            |
| Mortgage Covered Bonds  | February 2016  | February 2021  | 0,50%         | 500                  | 100 000 | EUR      | 50 213           | 50 216           |
| Mortgage Covered Bonds  | March 2016     | March 2021     | 1,05%         | 6 992                | 1 000   | EUR      | 7 031            | 7 015            |
| Mortgage Covered Bonds  | March 2014     | March 2021     | 2,00%         | 8 487                | 1 000   | EUR      | 8 562            | 8 534            |
| Mortgage Covered Bonds  | April 2016     | April 2021     | 1,05%         | 4 961                | 1 000   | EUR      | 4 988            | 4 973            |
| Mortgage Covered Bonds  | April 2008     | April 2021     | 5,00%         | 250                  | 66 388  | EUR      | 17 184           | 17 184           |
| Mortgage Covered Bonds  | May 2016       | May 2021       | 1,00%         | 4 988                | 1 000   | EUR      | 5 005            | 4 996            |
| Mortgage Covered Bonds  | May 2014       | May 2021       | 1,90%         | 4 975                | 1 000   | EUR      | 5 000            | 4 988            |
| Mortgage Covered Bonds  | June 2016      | June 2021      | 0,00%         | 3 998                | 1 000   | EUR      | 3 858            | 3 871            |
| Mortgage Covered Bonds  | June 2014      | June 2021      | 1,75%         | 9 450                | 1 000   | EUR      | 9 527            | 9 460            |
| Mortgage Covered Bonds  | July 2016      | July 2021      | 0,90%         | 4 990                | 1 000   | EUR      | 5 022            | 5 012            |
| Mortgage Covered Bonds  | July 2014      | July 2021      | 1,55%         | 3 515                | 1 000   | EUR      | 3 571            | 3 540            |
| Mortgage Covered Bonds  | August 2016    | August 2021    | 0,80%         | 4 995                | 1 000   | EUR      | 5 011            | 5 011            |
| Mortgage Covered Bonds  | August 2016    | August 2021    | 0,75%         | 4 989                | 1 000   | EUR      | 5 013            | 5 002            |
| Mortgage Covered Bonds  | September 2016 | September 2021 | 0,70%         | 4 953                | 1 000   | EUR      | 5 008            | 4 962            |
| Mortgage Covered Bonds  | October 2016   | October 2021   | 0,65%         | 4 975                | 1 000   | EUR      | 4 996            | 4 981            |
| Mortgage Covered Bonds  | November 2016  | November 2021  | 0,25%         | 1 000                | 100 000 | EUR      | 99 994           | 100 000          |
| Mortgage Covered Bonds  | December 2015  | December 2021  | 0,63%         | 200                  | 100 000 | EUR      | 19 998           | 20 000           |
| Mortgage Covered Bonds  | December 2016  | December 2021  | 0,65%         | 9 944                | 1 000   | EUR      | 10 002           | 9 946            |
| Senior Unsecured Bonds  | December 2016  | December 2021  | 0,65%         | 4 977                | 1 000   | EUR      | 5 001            | 4 978            |
| Mortgage Covered Bonds  | February 2015  | February 2022  | 0,88%         | 350                  | 100 000 | EUR      | 35 250           | 35 256           |
| Mortgage Covered Bonds  | March 2014     | March 2022     | 2,00%         | 220                  | 50 000  | EUR      | 11 098           | 11 111           |
| Senior Unsecured Bonds  | March 2017     | March 2022     | 0,60%         | 4 980                | 1 000   | EUR      | -                | 5 003            |
| Senior Unsecured Bonds  | April 2017     | April 2022     | 0,60%         | 30                   | 100 000 | EUR      | 0                | 3 013            |
| Senior Unsecured Bonds  | April 2017     | April 2022     | 0,60%         | 4 961                | 1 000   | EUR      | -                | 4 981            |
| Senior Unsecured Bonds  | May 2017       | May 2022       | 0,60%         | 4 967                | 1 000   | EUR      | 0                | 4 985            |
| Mortgage Covered Bonds  | June 2017      | June 2022      | 0,38%         | 50                   | 100 000 | EUR      | 0                | 4 996            |
| Senior Unsecured Bonds  | July 2017      | July 2022      | 0,60%         | 4 995                | 1 000   | EUR      | 0                | 5 008            |
| Mortgage Covered Bonds  | August 2015    | August 2022    | 1,00%         | 100                  | 100 000 | EUR      | 10 006           | 10 012           |
| Senior Unsecured Bonds  | August 2017    | August 2022    | 0,63%         | 4 967                | 1 000   | EUR      | 0                | 4 979            |
| Senior Unsecured Bonds  | September 2017 | September 2022 | 0,63%         | 5 000                | 1 000   | EUR      | -                | 5 009            |
| Senior Unsecured Bonds  | September 2017 | September 2022 | 0,63%         | 9 900                | 1 000   | EUR      | -                | 9 916            |
| Mortgage Covered Bonds  | October 2017   | October 2022   | 0,50%         | 1 500                | 100 000 | EUR      | 0                | 149 924          |
| Senior Unsecured Bonds  | November 2017  | November 2022  | 2,00%         | 5 000                | 1 000   | USD      | -                | 4 180            |
| Mortgage Covered Bonds  | January 2013   | January 2025   | 3,10%         | 87                   | 50 000  | EUR      | 4 412            | 4 412            |
| Mortgage Covered Bonds  | March 2017     | March 2025     | 0,75%         | 1 000                | 100 000 | EUR      | -                | 100 305          |
| Mortgage Covered Bonds  | August 2015    | August 2025    | 1,38%         | 100                  | 100 000 | EUR      | 9 990            | 9 997            |
| Mortgage Covered Bonds  | March 2016     | March 2026     | 1,00%         | 90                   | 100 000 | EUR      | 8 977            | 8 986            |
| Mortgage Covered Bonds  | July 2007      | July 2027      | 4,95%         | 250                  | 66 388  | EUR      | 24 194           | 23 283           |
| Senior Unsecured Bonds  | November 2017  | November 2027  | 1,38%         | 44                   | 100 000 | EUR      | 0                | 4 398            |
| Mortgage Covered Bonds  | June 2013      | June 2028      | 3,00%         | 132                  | 50 000  | EUR      | 6 615            | 6 615            |
| Mortgage Covered Bonds  | February 2014  | February 2029  | 2,80%         | 97                   | 50 000  | EUR      | 4 899            | 4 899            |
| <b>Total</b>            |                |                |               |                      |         |          | <b>1 242 622</b> | <b>1 489 770</b> |

## 26) Provisions

| EUR ths.                                                                | 2016          | 2017          |
|-------------------------------------------------------------------------|---------------|---------------|
| Long-term employee benefits provisions                                  | 5 167         | 2 982         |
| Restructuring provision                                                 | -             | 1 341         |
| Pending legal issues and tax litigation                                 | 5 765         | 5 653         |
| Commitments and guarantees given                                        | 11 494        | 15 091        |
| Provisions for guarantees - off balance sheet (defaulted customers)     | 1 083         | 8 578         |
| Provisions for guarantees - off balance sheet (non-defaulted customers) | 10 411        | 6 513         |
| <b>Total</b>                                                            | <b>22 426</b> | <b>25 067</b> |

### Long-term employee benefits provisions

The Parent has a defined employee benefit program under which all employees are entitled to a lump-sum payment upon working anniversaries or retirement. The number of employees under this program is disclosed in the note 6.

The amount of long-term employee benefits provisions is calculated using an actuarial model based on the projected unit credit method. In the year 2017 the Group has performed an annual review of the long-term employee benefits provisions using updated data in order to recognize the provisions in appropriate amounts.

The amounts relating to long-term employee benefits provisions recognised on the balance sheet and the income statement were as follows:

| EUR ths.                                                             | Pension obligations | Working anniversaries provision | Total        |
|----------------------------------------------------------------------|---------------------|---------------------------------|--------------|
| <b>Long-term employee benefits provisions as of 31 December 2015</b> | <b>2 648</b>        | <b>2 171</b>                    | <b>4 818</b> |
| Service cost                                                         | 203                 | 262                             | 466          |
| Interest cost                                                        | 41                  | 34                              | 74           |
| Payments                                                             | (101)               | (168)                           | (269)        |
| Actuarial (gains)/losses                                             |                     |                                 |              |
| from changes in demographic assumptions                              | (4)                 | (2)                             | (6)          |
| from changes in financial assumptions                                | 215                 | 123                             | 338          |
| from changes in experience assumptions                               | (128)               | (126)                           | (254)        |
| <b>Long-term employee benefits provisions as of 31 December 2016</b> | <b>2 873</b>        | <b>2 294</b>                    | <b>5 167</b> |
| Service cost                                                         | 223                 | 36                              | 259          |
| Interest cost                                                        | 19                  | 15                              | 34           |
| Payments                                                             | (322)               | (69)                            | (391)        |
| Actuarial (gains)/losses                                             |                     |                                 |              |
| from changes in demographic assumptions                              | 14                  | 4                               | 17           |
| from changes in financial assumptions                                | (233)               | (113)                           | (345)        |
| from changes in experience assumptions                               | 45                  | (1 804)                         | (1 759)      |
| <b>Long-term employee provisions as of 31 December 2017</b>          | <b>2 619</b>        | <b>363</b>                      | <b>2 982</b> |

In the year 2017 the working anniversaries provision decreased due to changes in the employee benefit program conditions.

The actuarial calculation of pension provision used the following assumptions:

| Pension provision                              | 2016             | 2017             |
|------------------------------------------------|------------------|------------------|
| Ročná diskontná sadzba                         | 0,65%            | 1,46%            |
| Očakávaný ročný nárast miezd                   | 0,00%            | 0,00%            |
| Ročná miera odchodov / fluktuácia zamestnancov | 4,16 % - 16,40 % | 5,96 % - 15,88 % |
| Vek odchodu do dôchodku                        | 62 years         | 62 years         |

The actuarial calculation of working anniversaries provision used the following assumptions:

| Working anniversaries provision               | 2016             | 2017             |
|-----------------------------------------------|------------------|------------------|
| Annual real discount rate                     | 0,65%            | 1,46%            |
| Annual real rate of salary increase in future | 0,00%            | 0,00%            |
| Annual employee turnover                      | 4,16 % - 16,40 % | 5,96 % - 15,88 % |
| Retirement age                                | 62 years         | 62 years         |

In the calculation of long-term employee benefits provisions official mortality tables published by the Statistical Office were used.

#### Provisions for legal issues

Provisions for legal issues relate to legal cases where the Group issued and which arose from normal banking activities.

#### Restructuring provision

Restructuring provision was created in December 2017 in the amount of 1,3 mil. Eur based on the decision of the Board of Directors following the measures agreed to improve efficiency of the Bank's processes that are essential in order to meet strict requirements and expectations of the Group's stakeholders for its performance in a short-term future. The Group intends to use this provision during the year 2018.

#### Provisions for off-balance sheet

Provisions for off-balance sheet were created to cover losses incurred in unused loan commitments, guarantees and letters of credits. The amount of these provisions is estimated with respect to credit risk relating to affected items, as well as time value of money (i.e. current market interest rates are used for discounting).

The following table presents development of provision:

| EUR ths.                                          | 2016          | Additions     | Use            | Release         | Incr. in disc. amount & eff. any change in disc. Rate | Exchange-rate and other changes | 2017          |
|---------------------------------------------------|---------------|---------------|----------------|-----------------|-------------------------------------------------------|---------------------------------|---------------|
| Restructuring provision                           | -             | 1 341         | -              | -               | -                                                     | -                               | 1 341         |
| Pending legal issues and tax litigation           | 5 765         | 905           | (697)          | (320)           | -                                                     | -                               | 5 653         |
| Provisions for contingent credit risk liabilities | 11 494        | 28 071        | -              | (24 519)        | 38                                                    | 7                               | 15 091        |
| Other provisions                                  | -             | 8 500         | (3 556)        | (4 944)         | -                                                     | -                               | -             |
| <b>Total</b>                                      | <b>17 259</b> | <b>38 817</b> | <b>(4 253)</b> | <b>(29 783)</b> | <b>38</b>                                             | <b>7</b>                        | <b>22 085</b> |

| EUR ths.                                          | 2015          | Additions     | Use          | Release         | Incr. in disc. amount & eff. any change in disc. Rate | Exchange-rate and other changes | 2016          |
|---------------------------------------------------|---------------|---------------|--------------|-----------------|-------------------------------------------------------|---------------------------------|---------------|
| Pending legal issues and tax litigation           | 7 086         | 1 304         | (1 265)      | (1 360)         | -                                                     | -                               | 5 765         |
| Provisions for contingent credit risk liabilities | 15 906        | 28 316        | -            | (32 732)        | -                                                     | 4                               | 11 494        |
| Other provisions                                  | 298           | (8 972)       | 6 467        | 2 207           | -                                                     | -                               | -             |
| <b>Total</b>                                      | <b>23 290</b> | <b>20 648</b> | <b>5 202</b> | <b>(31 885)</b> | <b>-</b>                                              | <b>4</b>                        | <b>17 259</b> |

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

## 27) Other liabilities

| EUR ths.                                         | 2016           | 2017          |
|--------------------------------------------------|----------------|---------------|
| Client settlement                                | 74 544         | -             |
| Trade payables                                   | 43 847         | 41 397        |
| Personnel balances and social fund               | 35 081         | 36 252        |
| State budget, social and health insurance, taxes | 4 558          | 4 587         |
| Sundry liabilities                               | 3 586          | -             |
| <b>Total</b>                                     | <b>161 615</b> | <b>82 236</b> |

As at 31 December 2017 liabilities related to settlement of securities transactions and clearing of payment transactions in the amount of 91,0 mil. Eur are disclosed in the line item 'Other financial liabilities'. In the year 2016 these liabilities amounted 74,5 mil. Eur and were presented as client settlement in the line item 'Other liabilities'.

Social fund liability, which is included in the line item 'Other liabilities', developed as follows:

| EUR ths.                      | 2016         | 2017         |
|-------------------------------|--------------|--------------|
| As at 1 January 2017          | 300          | 1 030        |
| Additions                     | 3 511        | 2 231        |
| Withdrawals                   | (2 781)      | (1 994)      |
| <b>As at 31 December 2017</b> | <b>1 030</b> | <b>1 267</b> |

## 28) Equity

### Share capital

The approved share capital was fully paid and consists of the following:

|                                 | 2016               | 2017               |
|---------------------------------|--------------------|--------------------|
| Nominal value of share (in EUR) | 1 000              | 1 000              |
| Number of shares                | 212 000            | 212 000            |
| <b>Share capital (in EUR)</b>   | <b>212 000 000</b> | <b>212 000 000</b> |

The following table presents distribution of individual profits of the bank for the years 2016 (approved) and 2017 (proposal):

| Profit distribution                                        | 2016       | 2017       |
|------------------------------------------------------------|------------|------------|
| Profit for the year (in EUR ths.)                          | 212 221    | 162 056    |
| Distribution for Investment certificate 2015 SLSP AT1 PNC5 | 11 700     | 11 700     |
| Dividends pay-out to the shareholder                       | 190 495    | 142 838    |
| Transfer to retained earnings                              | 10 026     | 7 518      |
| Number of shares with nominal value of EUR 1 000 (in pcs.) | 212 000    | 212 000    |
| <b>Amount of dividends per EUR 1 000 share (EUR)</b>       | <b>899</b> | <b>674</b> |

Dividends for the year 2016 were paid in April 2017 following the resolution of General Assembly of the Bank dated 27 March 2017.

### Other capital instruments

During the year 2015 the Group has issued an investment certificate in the amount of 150 mil. Eur that is classified as equity instrument according to the standard IAS 32. This certificate is a perpetual instrument with the agreed interest rate of 7,8 % p.a. paid semi-annually.

### Legal reserve fund

According to Commercial Code all companies are required to create a legal reserve fund to cover adverse financial conditions in the future. The Group is obliged to contribute to the fund the amount, which is not less than 10% of its annual net profit until the cumulative amount of annual contributions reaches 20% of its share capital. As at 31 December 2017 Legal reserve fund amounted 79,8 mil. Eur (2016: 79,8 mil. Eur) and in both years exceeded the required 20 % of the share capital. Legal reserve fund is not available for distribution to the shareholder.

### Other funds

Other funds include only Statutory fund created from distributable profits to strengthen the Group's capital base. This fund is not available for distribution to the shareholder. Once the Group's share capital or legal reserve fund is increased, Statutory fund may be terminated and transferred back to the distributable profits

with the approval of the Supervisory Board and of the General Assembly. As at 31 December 2017 Statutory fund amounted 39,1 mil. Eur (2016: 39,1 mil. Eur).

### Available for sale reserve

Available for sale reserve represents the unrealised revaluation of the securities available for sale. This reserve is not available for distribution to the shareholder. As at 31 December 2017 available for sale reserve amounted 94,9 mil. Eur (2016: 83,9 mil. Eur), net of deferred tax.

### Remeasurement of net liability of defined pension plans

This equity component reflects the results of actuarial calculations related to the pension provision. As at 31 December 2017 the remeasurement of the pension provision amounted 0,5 mil. Eur (2016: 0,8 mil. Eur), net of deferred tax.



## 29) Related-party transactions

### Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by the only shareholder Erste Group Bank AG, which directly owns 100 % share on the voting rights of the Group. Further related parties include subsidiaries, which are under

control of the Group and associates, over which the Group has significant influence. Moreover, other members of the Erste group are also related parties of the Group.

Transactions with related parties occur in the normal course of business and primarily include loans and deposits. These transactions are performed at arm's length, i.e. the terms and conditions applied respect market conditions.

Assets and liabilities include accounting balances with related parties, as follows:

| EUR ths.                          | Erste Group Bank |                | Companies of Erste Group |                | Associates |          |
|-----------------------------------|------------------|----------------|--------------------------|----------------|------------|----------|
|                                   | 2016             | 2017           | 2016                     | 2017           | 2016       | 2017     |
| <b>Assets</b>                     |                  |                |                          |                |            |          |
| Cash and cash balances            | -                | 3 467          | -                        | 49 835         | -          | -        |
| Derivatives                       | 7 271            | 2 218          | 156                      | 93             | -          | -        |
| Loans and advances with banks     | 17 084           | 135 716        | 13 782                   | 41 812         | -          | -        |
| Loans and advances with customers | -                | -              | 40 639                   | 49 621         | -          | -        |
| Other assets - other              | 4 370            | 4 345          | 464                      | 935            | -          | -        |
| <b>Total</b>                      | <b>28 725</b>    | <b>145 746</b> | <b>55 041</b>            | <b>142 296</b> | <b>-</b>   | <b>-</b> |
| <b>Liabilities</b>                |                  |                |                          |                |            |          |
| Derivatives held for trading      | 34 464           | 31 358         | 2                        | 1              | -          | -        |
| Deposits from banks               | 52 724           | 200 594        | 644                      | 690            | -          | -        |
| Deposits from customers           | -                | -              | 1 829                    | 2 616          | -          | -        |
| Debt securities issued            | 100 298          | -              | -                        | -              | -          | -        |
| Derivatives – Hedge accounting    | 52 389           | 42 100         | -                        | -              | -          | -        |
| Other liabilities other           | 1 297            | 1 123          | 7 537                    | 4 728          | -          | -        |
| <b>Total</b>                      | <b>241 172</b>   | <b>275 175</b> | <b>10 012</b>            | <b>8 035</b>   | <b>-</b>   | <b>-</b> |

Income and expenses include transactions with the related parties, as follows:

| EUR ths.                          | Erste Group Bank |              | Companies of Erste Group |              | Associates   |              |
|-----------------------------------|------------------|--------------|--------------------------|--------------|--------------|--------------|
|                                   | 2016             | 2017         | 2016                     | 2017         | 2016         | 2017         |
| Interest income                   | (7 568)          | (8 707)      | 1 250                    | 1 025        | -            | -            |
| Interest expense                  | (3 103)          | (3 801)      | (18)                     | (26)         | -            | -            |
| Dividend income                   | -                | -            | 347                      | -            | 2 384        | 2 038        |
| Net fee and commission income     | 23               | 83           | 6 006                    | 7 482        | -            | -            |
| Net trading and fair value result | 1 020            | 21 269       | -                        | 285          | -            | -            |
| General administrative expenses   | (4 074)          | (5 197)      | (7 402)                  | (9 579)      | -            | -            |
| Other operating result            | 625              | 509          | 2 559                    | 2 538        | 2            | -            |
| <b>Total</b>                      | <b>(13 077)</b>  | <b>4 156</b> | <b>2 742</b>             | <b>1 725</b> | <b>2 386</b> | <b>2 038</b> |

The amounts with Erste Group Bank AG reported in the line items 'Interest income' and 'Net trading result' represent results from derivative instruments used to close positions with the clients.

In the year 2015 the Group has issued investment certificates in the amount of 150 mil. Eur, which were purchased by Erste Bank AG (note 28).

The Group has received a guarantee from its parent company Erste Group Bank AG covering exposures towards Erste Group Immovent Slovensko s.r.o.. As at 31 December 2017 the guarantee was in the amount of 23,2 mil. Eur (2016: 23,2 mil. Eur).

The Group received guarantees from its parent company Erste Group Bank AG covering clients' exposures in the amount of 2,2 mil. Eur as at the reporting date (2016: 2,2 mil. Eur).

The Group has received guarantee from its sister company Česká spořitelna, a.s. covering credit exposures towards s\_Autoleasing SK, s.r.o. , which is the Erste group member. As at 31 December 2017 the maximum amount of the guarantee was 27,6 mil. Eur (2016: 27,6 mil. Eur).

The Group received guarantees from its sister company Česká spořitelna, a.s. covering clients' exposures in the amount of 0,9 mil. Eur as at the reporting date (2016: 1,2 mil. Eur).

The Group also received a guarantee from its sister company Erste Bank AD Podgorica covering client's exposure in the amount of

0,1 mil. Eur as at the reporting date (2016: 0,1 mil. Eur).

As at 31 December 2017 the Group owned a share in real estate fund Sporo realitny fond SPF of Asset Management Slovenskej sporitelne, a.s. in the amount of 5,5 mil. Eur (2016: 5,7 mil. Eur).

The Group received dividends from its associates in the amount of 2,0 mil. Eur (2016: 2,2 mil. Eur).

#### **Transactions with key management personnel**

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2017 in form of short-term employee benefits amounted to 2,2 mil. Eur (2016: 2,2 mil. Eur). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

## **30) Off-balance Sheet items**

In the normal course of business, the Group enters various contracts and transactions, which are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following information represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

#### **Loan commitments, guarantees and letters of credit**

Bank guarantees and letters of credit are used by customers to cover their liabilities (payment and non-payment) against third parties, who are beneficiaries in these transactions. The primary purpose of these instruments is to ensure that funds are available to the customers as required.

Bank guarantee represents an irrevocable liability of the Group to pay the agreed amount in case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Group to pay the agreed amount to the seller based on the instruction of the buyer against the documents specified in the letter of credit conditions. The Group deals with letters of credit in accordance with the 'Unified Rules and Customs for Documentary Letter-of-credit' as published by the International Chamber of Commerce.

Guarantees and standby letters of credit are irrevocable assurances that the Group will make payments in the event when the customer cannot meet its obligations against a third party and therefore these carry the same credit risk as loans. Documentary and commercial letters of credit are written undertakings of the Group to provide a third party with the agreed amount on behalf of the customer under specific conditions. As these are collateralised by the underlying shipment of goods (or transfer of the right to use), they carry less credit risk than direct borrowings.

Loan commitment represent an unused portion of the authorised credit limit, which can be drawn in the form of loan, guarantee or letter of credit. In relation to loan commitments, the Group is exposed to credit risk and a potential loss equals to the total amount of the loan commitment. However, most of the loan commitments are contingent upon maintaining specific credit standards by customers and therefore the likely amount of loss is less than the total amount of loan commitments.

The following table presents off-balance sheet credit exposures and also treasury commitments:

| EUR ths.                           | 2016             | 2017             |
|------------------------------------|------------------|------------------|
| Guarantees provided                | 286 301          | 319 122          |
| Guarantees from letter of credit   | 7 562            | 10 618           |
| Loan commitments and undrawn loans | 1 109 595        | 1 289 425        |
| <b>Total</b>                       | <b>1 403 458</b> | <b>1 619 165</b> |

## 31) Collaterals

The Group holds collaterals against loans and advances to customers in form of real estates, securities, received bank guaranties and other credit enhancements. The fair values of

collaterals are estimated based on their value at the time of borrowings and are regularly updated. In general, collaterals are not held against loans and advances to banks, except for securities held as a part of reverse repurchase agreements, commented in the note 16.

### Collaterals received

As at 31 December 2017 the Group had collateralized loans in the amount of 8 670,5 mil. Eur (2016: 7 677,2 mil. Eur), which were covered by collaterals in the amount of 9 168,5 mil. Eur (2016: 9 471,4 mil. Eur). The uncollateralized loans amounted 3 226,8 mil. Eur (2016: 2 663,2 mil. Eur).

The following table presents types of collaterals received:

| EUR ths.        | 2016             | 2017             |
|-----------------|------------------|------------------|
| Real estates    | 9 029 796        | 8 695 001        |
| Securities      | 25 976           | 23 944           |
| Bank guaranties | 117 965          | 117 760          |
| Other           | 297 615          | 331 841          |
| <b>Total</b>    | <b>9 471 352</b> | <b>9 168 546</b> |

### Assets pledged as collaterals

The following table presents assets pledged as collaterals for the Group's liabilities:

| 2017<br>EUR ths.                             | Carrying amount of transferred assets |                       |                                |                                  |                          | Carrying amount of associated liabilities |                       |                              |
|----------------------------------------------|---------------------------------------|-----------------------|--------------------------------|----------------------------------|--------------------------|-------------------------------------------|-----------------------|------------------------------|
|                                              | Total                                 | Repurchase agreements | Assets pledged for derivatives | Assets pledged for covered bonds | Other transferred assets | Total                                     | Repurchase agreements | Other associated liabilities |
| <b>Financial assets - available for sale</b> | 191 439                               | 79 547                | 40 634                         | 63 299                           | 7 958                    | 169 781                                   | 78 857                | 90 924                       |
| Loans and receivables to customers           | 1 462 588                             | -                     | -                              | 1 462 588                        | -                        | 1 211 162                                 | -                     | 1 211 162                    |
| Financial assets - held to maturity          | 59 010                                | -                     | 10 061                         | 48 949                           | -                        | 49 836                                    | -                     | 49 836                       |
| <b>Total</b>                                 | <b>1 713 037</b>                      | <b>79 547</b>         | <b>50 695</b>                  | <b>1 574 837</b>                 | <b>7 958</b>             | <b>1 430 779</b>                          | <b>78 857</b>         | <b>1 351 922</b>             |

| 2016                                         | Carrying amount of transferred assets |                       |                                |                                  |                          | Carrying amount of associated liabilities |                       |                              |
|----------------------------------------------|---------------------------------------|-----------------------|--------------------------------|----------------------------------|--------------------------|-------------------------------------------|-----------------------|------------------------------|
|                                              | Total                                 | Repurchase agreements | Assets pledged for derivatives | Assets pledged for covered bonds | Other transferred assets | Total                                     | Repurchase agreements | Other associated liabilities |
| EUR ths.                                     |                                       |                       |                                |                                  |                          |                                           |                       |                              |
| <b>Financial assets - available for sale</b> | 239 423                               | 128 637               | 50 426                         | 52 204                           | 8 156                    | 212 067                                   | 127 272               | 84 795                       |
| Loans and receivables to customers           | 1 297 728                             | -                     | -                              | 1 297 728                        | -                        | 1 023 660                                 | -                     | 1 023 660                    |
| Financial assets - held to maturity          | 58 764                                | -                     | 9 991                          | 48 773                           | -                        | 47 114                                    | -                     | 47 114                       |
| <b>Total</b>                                 | <b>1 595 915</b>                      | <b>128 637</b>        | <b>60 418</b>                  | <b>1 398 704</b>                 | <b>8 156</b>             | <b>1 282 841</b>                          | <b>127 272</b>        | <b>1 155 569</b>             |

## 32) Offsetting of financial assets and financial liabilities

| 2017                           | Gross amounts of recognised financial liabilities | Amounts of financial assets set off against financial liabilities | Net amounts of financial liabilities in the balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting |                         |                                       | Net amount after potential offsetting |
|--------------------------------|---------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------|---------------------------------------|---------------------------------------|
|                                |                                                   |                                                                   |                                                           | Financial instruments                                                               | Cash collateral pledged | Non-cash financial collateral pledged |                                       |
| EUR ths.                       |                                                   |                                                                   |                                                           |                                                                                     |                         |                                       |                                       |
| <b>Assets</b>                  |                                                   |                                                                   |                                                           |                                                                                     |                         |                                       |                                       |
| Derivatives                    | 36 484                                            | -                                                                 | 36 484                                                    | -                                                                                   | -                       | -                                     | 36 484                                |
| Derivatives - hedge accounting | 6 761                                             | -                                                                 | 6 761                                                     | -                                                                                   | -                       | -                                     | 6 761                                 |
| <b>Total assets</b>            | <b>43 244</b>                                     | <b>-</b>                                                          | <b>43 244</b>                                             | <b>-</b>                                                                            | <b>-</b>                | <b>-</b>                              | <b>43 244</b>                         |
| <b>Liabilities</b>             |                                                   |                                                                   |                                                           |                                                                                     |                         |                                       |                                       |
| Derivatives                    | 33 344                                            | -                                                                 | 33 344                                                    | -                                                                                   | -                       | 26 152                                | 7 191                                 |
| Derivatives - Hedge Accounting | 42 100                                            | -                                                                 | 42 100                                                    | -                                                                                   | -                       | 20 714                                | 21 386                                |
| Repurchase agreements          | 78 857                                            | -                                                                 | 78 857                                                    | -                                                                                   | -                       | 78 857                                | -                                     |
| <b>Total liabilities</b>       | <b>154 300</b>                                    | <b>-</b>                                                          | <b>154 300</b>                                            | <b>-</b>                                                                            | <b>-</b>                | <b>125 723</b>                        | <b>28 578</b>                         |

| 2016                           | Gross amounts of recognised financial liabilities | Amounts of financial assets set off against financial liabilities | Net amounts of financial liabilities in the balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting |                         |                                       | Net amount after potential offsetting |
|--------------------------------|---------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------|---------------------------------------|---------------------------------------|
|                                |                                                   |                                                                   |                                                           | Financial instruments                                                               | Cash collateral pledged | Non-cash financial collateral pledged |                                       |
| EUR ths.                       |                                                   |                                                                   |                                                           |                                                                                     |                         |                                       |                                       |
| <b>Assets</b>                  |                                                   |                                                                   |                                                           |                                                                                     |                         |                                       |                                       |
| Derivatives                    | 44 814                                            | -                                                                 | 44 814                                                    | -                                                                                   | -                       | -                                     | 44 814                                |
| Derivatives - hedge accounting | 7 705                                             | -                                                                 | 7 705                                                     | -                                                                                   | -                       | -                                     | 7 705                                 |
| <b>Total assets</b>            | <b>52 519</b>                                     | <b>-</b>                                                          | <b>52 519</b>                                             | <b>-</b>                                                                            | <b>-</b>                | <b>-</b>                              | <b>52 519</b>                         |
| <b>Liabilities</b>             |                                                   |                                                                   |                                                           |                                                                                     |                         |                                       |                                       |
| Derivatives                    | 42 812                                            | -                                                                 | 42 812                                                    | -                                                                                   | -                       | 27 225                                | 15 587                                |
| Derivatives - Hedge Accounting | 52 389                                            | -                                                                 | 52 389                                                    | -                                                                                   | -                       | 25 033                                | 27 357                                |
| Repurchase agreements          | 127 272                                           | -                                                                 | 127 272                                                   | -                                                                                   | -                       | 127 272                               | -                                     |
| <b>Total liabilities</b>       | <b>222 473</b>                                    | <b>-</b>                                                          | <b>222 473</b>                                            | <b>-</b>                                                                            | <b>-</b>                | <b>179 530</b>                        | <b>42 943</b>                         |

## 33) Assets under administration

The Group provides custody, trustee, investment management and advisory services to third parties, which involves making decisions on distribution, purchase and sale related to a wide range of financial instruments. The assets held in a fiduciary capacity are not included in these financial statements.

As at 31 December 2017 the Group held assets for collective investment undertakings in the amount of 1 261,5 mil. Eur (2016: 1 132,3 mil. Eur).

As at 31 December 2017 the Group also held assets for customers other than collective investment undertakings in the amount of 6 339,2 mil. Eur (2016: 4 238,1 mil. Eur).

## 34) Segment reporting

The segment reporting of the Bank is based on IFRS 8 - Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the Chief Operating Decision Maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Bank the function of the Chief Operating Decision Maker is executed by the Board of Directors. In addition, the Bank's segment reporting follows the standards of the Erste group issued for the purpose to unify presentation, measurement and steering of the group.

### Structural change and major principles

Following a strategic review related to the Group operating segments and method used for the capital allocation to segments, from 1st of January 2016 changes are introduced in the segment reporting of the Group as well which are aligned with the Group governance.

The Segment report represents the single source of truth for reporting of financial performance of the Group's segments and serves as the basis for business steering of all individual segments as well as consolidated result of the Group. All the areas of the Group, directly or indirectly involved in business steering and/or reporting of business performance (e.g. Financial Controlling, Business Accounting, Reporting, Management Information Governance, Local Risk Management, ALM, Strategy & Quality management, , Retail, Corporates and Markets, Communication), have to assure full alignment of the data used in their reporting in terms of segment structure, segment definitions, key ratios and measures to the current approved segment structure of the Group. It is the responsibility of the respective area to assure that the alignment is achieved. Segment reporting in the Group has to be aligned with Erste group segment reporting in terms of segment structure, segment definitions, key ratios and measures, and it has to fulfil local requirements of IFRS 8.

The Group's segment structure serves as a basis for budgeting, forecasting, strategic discussions, setting and tracking of key performance indicators (KPIs).

### Business segments

The segment reporting was aligned with Erste group segment

principles in order to present the bank structure in a transparent way reflecting internal steering and allocations of sources. The Group is divided into the following business segments:

- Retail,
- Corporates
- Assets and Liabilities Management (ALM) and Local Corporate Centre (LCC),
- Group Markets (GM),

The Group applies account manager principle for the definition of segments / business lines. It means that each client has assigned one account manager from a particular segment / business line. Subsequently, profit or loss on business transactions with the client is allocated to that account manager.

The **Retail** segment comprises the entire business with private individuals, free professionals and micros, which are in the responsibility of account managers from the retail network. Retail products and services, including current and savings accounts, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance and building society products) are offered via various distribution channels, such as branch network and digital banking. The Retail segment is divided into 8 regions, 42 areas and 271 branches (status as at 31 December 2017). In addition the Retail segment also includes the results of Prvá stavebná sporiteľňa, a.s. (building society).

**Corporates** segment comprises services and business done with corporate customers of various turnover size including public sector which is divided into following areas:

- Small and medium-sized enterprises are small, medium and local companies with an annual turnover from 1 mil. Eur to 75 mil. Eur.
- Local Large Corporates (LLC) are clients with a consolidated annual turnover threshold above Eur 75 million which are not defined as Group Large Corporate customers according to the Group Large Corporate client list.
- Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover of at least Eur 500 million. GLC clients can be found on the Erste Group-wide GLC client list, which is maintained by the Group GLC. Group Large Corporates business covers the following customer types in principle: customers across the region with an annual turnover above Eur 500 million, selected customers with an annual turnover below Eur 500 million in case of multinational setup or strong capital markets service needs.
- Public sector consists of the following three sets of customers: public sector, public corporations and non-profit sector. Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies. Non-profit sector comprises the following private non-profit companies: central authorities of churches, country-wide labor unions, political parties and nationally significant foundations,

private schools and humanitarian organizations.

- Commercial Real Estate (CRE) business covers investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale, asset management services and own development for business purpose.

**Asset Liability Management (ALM) and Local Corporate Center (LCC)** segment comprises on the one side the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions. On the other side it also includes the local corporate center which comprises all non-core banking business activities such as non-profit servicing participations, intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets) which cannot be allocated to other business segments. Apart from that the Local Corporate Center includes received dividends and reconciliations to the accounting result. The segment comprises also free capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to all operating segments.

**Group Markets (GM)** segment comprises trading and markets services as well as business with financial institutions.

- Trading and Market Services comprises all activities related to active risk taking and managing in regulatory trading books of the Group, additional to that the execution of trades against the market using the trading books of the Group for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.
- Financial institutions (FI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

## Measurement and reporting

The segment reporting of the Group, as well as internal management reporting is prepared in accordance with IFRS. It means, that accounting policies and measurement methods used in the segment reporting are the same as those applied in the separate financial statement.

The profit and loss statement presented in the segment report is based on the measures reported to the Board of Directors for the purpose of resource allocation and segments' performance assessment.

In line with the regular internal reporting prepared for the Board of Directors, total assets, total liabilities, as well as risk weighted assets and allocated equity are disclosed per segment.

The capital consumption per segment is regularly reviewed by the management to assess the performance of the segments. The average allocated equity is determined by credit risk, market risk and operational risk.

For measuring and assessing the profitability of segments, the Group also uses the rate of return on allocated equity, which is defined as the net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition the cost/income ratio is calculated for each segment, which is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading result, result from financial instruments designated at fair value through profit or loss, net result from equity method investments, rental income from investment properties & other operating lease).



| EUR ths.                                                                                                  | Retail         |                | Corporates    |               |
|-----------------------------------------------------------------------------------------------------------|----------------|----------------|---------------|---------------|
|                                                                                                           | 2016           | 2017           | 2016          | 2017          |
| Net interest income                                                                                       | 389 538        | 380 516        | 59 025        | 61 697        |
| Net fee and commission income                                                                             | 99 562         | 91 167         | 15 115        | 13 138        |
| Dividend income                                                                                           | -              | -              | -             | 25            |
| Net trading                                                                                               | 3 154          | 3 646          | 4 681         | 3 523         |
| Result from financial instruments designated at FV through P&L                                            | -              | -              | -             | -             |
| Net result from equity method investments                                                                 | 1 851          | 2 123          | -             | -             |
| Rental income from investment properties & other operating leases                                         | -              | -              | -             | -             |
| General administrative expenses                                                                           | (208 408)      | (243 919)      | (27 883)      | (34 641)      |
| thereof depreciation and amortization                                                                     | (33 492)       | (37 835)       | (4 607)       | (5 733)       |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | -              | -              | -             | -             |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | (43 969)       | (40 215)       | (4 894)       | 9 815         |
| Other operating result                                                                                    | (19 023)       | (20 903)       | 1 245         | (6 149)       |
| Levies on banking activities                                                                              | (18 443)       | (20 083)       | (3 838)       | (3 370)       |
| <b>Pre-tax profit from continuing operations</b>                                                          | <b>222 707</b> | <b>172 415</b> | <b>47 288</b> | <b>47 409</b> |
| Taxes on income                                                                                           | (48 996)       | (36 207)       | (10 403)      | (9 956)       |
| Net result for the period                                                                                 | 173 711        | 136 207        | 36 885        | 37 453        |
| Net result attributable to non-controlling interests                                                      | -              | -              | -             | -             |
| <b>Net result attributable to owners of the parent</b>                                                    | <b>173 711</b> | <b>136 208</b> | <b>36 885</b> | <b>37 453</b> |
| Operating income                                                                                          | 494 107        | 477 452        | 78 821        | 78 384        |
| Operating expenses                                                                                        | (208 409)      | (243 918)      | (27 883)      | (34 641)      |
| <b>Operating result</b>                                                                                   | <b>285 698</b> | <b>233 534</b> | <b>50 938</b> | <b>43 743</b> |
| Risk-weighted assets (credit risk, eop)*                                                                  | 2 282 896      | 2 606 851      | 1 872 894     | 2 419 866     |
| Average allocated capital**                                                                               | 294 932        | 309 891        | 143 006       | 171 155       |
| Cost/income ratio                                                                                         | -              | -              | -             | -             |
| Return on allocated capital                                                                               | -              | -              | -             | -             |
| Total assets (eop)                                                                                        | 7 978 059      | 9 032 269      | 2 467 913     | 2 865 121     |
| Total liabilities excluding equity (eop)                                                                  | 9 671 795      | 10 306 680     | 1 277 327     | 1 299 051     |
| <b>Impairments and risk provisions</b>                                                                    |                |                |               |               |
| Net impairment loss on loans and receivables from credit institutions and customers                       | (43 968)       | (40 215)       | (4 894)       | 9 853         |
| Net impairment loss on other financial assets not measured at fair value through profit and loss          | -              | -              | -             | (38)          |
| Allocation/release of provisions for contingent credit risk liabilities                                   | (581)          | (821)          | 5 083         | (2 779)       |
| Net impairment loss on other non financial assets                                                         | -              | -              | -             | -             |

\*Credit RWA (Eop) after intercompany transactions according to Pillar 1, calculated by Erste group for the purpose of segment report and management purposes.

\*\* Average allocated capital is calculated based on Erste group controlling methodology.

| Group Markets |              | ALM/LCC         |                 | Total          |                |
|---------------|--------------|-----------------|-----------------|----------------|----------------|
| 2016          | 2017         | 2016            | 2017            | 2016           | 2017           |
|               |              |                 |                 |                |                |
| 4 646         | 4 012        | 8 416           | (6 935)         | 461 625        | 439 290        |
| 4 986         | 6 330        | 2 054           | 2 073           | 121 717        | 112 708        |
| -             | -            | 1 307           | 1 061           | 1 307          | 1 086          |
| 4 483         | 3 607        | 1 150           | 2 997           | 13 468         | 13 773         |
| -             | -            | (916)           | (514)           | (916)          | (514)          |
| -             | -            | (1)             | -               | 1 850          | 2 123          |
| -             | -            | 881             | 325             | 881            | 325            |
| (3 870)       | (5 230)      | (36 558)        | 1 125           | (276 719)      | (282 665)      |
| (184)         | (145)        | (7 311)         | (1 053)         | (45 594)       | (44 766)       |
| -             | -            | 27 044          | 301             | 27 044         | 301            |
| (8)           | 43           | 636             | 283             | (48 235)       | (30 074)       |
| (1 681)       | (1 275)      | 3 384           | (11 467)        | (16 075)       | (39 794)       |
| (1 594)       | (1 336)      | (5 231)         | (5 339)         | (29 106)       | (30 128)       |
| <b>8 556</b>  | <b>7 487</b> | <b>8 312</b>    | <b>(10 238)</b> | <b>286 863</b> | <b>217 073</b> |
| (1 882)       | (1 572)      | (10 100)        | (4 925)         | (71 381)       | (52 660)       |
| 6 674         | 5 915        | (1 788)         | (15 162)        | 215 482        | 164 413        |
| -             | -            | 22              | 19              | 22             | 19             |
| <b>6 674</b>  | <b>5 915</b> | <b>(1 810)</b>  | <b>(15 182)</b> | <b>215 460</b> | <b>164 394</b> |
|               |              |                 |                 |                |                |
| 14 115        | 13 949       | 12 891          | (994)           | 599 934        | 568 791        |
| (3 870)       | (5 230)      | (36 558)        | 1 125           | (276 720)      | (282 664)      |
| <b>10 245</b> | <b>8 718</b> | <b>(23 667)</b> | <b>132</b>      | <b>323 214</b> | <b>286 127</b> |
|               |              |                 |                 |                |                |
| 17 085        | 25 707       | 590 979         | 422 131         | 4 763 854      | 5 474 555      |
| 7 579         | 6 538        | 187 248         | 185 763         | 632 765        | 673 347        |
|               |              |                 |                 |                |                |
| -             | -            | -               | -               | -              | -              |
| -             | -            | -               | -               | -              | -              |
|               |              |                 |                 |                |                |
| 100 657       | 246 089      | 4 278 745       | 4 199 632       | 14 825 374     | 16 343 111     |
| 475 300       | 598 756      | 1 838 848       | 2 602 954       | 13 263 270     | 14 807 441     |
|               |              |                 |                 |                |                |
|               |              |                 |                 |                |                |
| (8)           | 43           | 673             | 295             | (48 197)       | (30 024)       |
| -             | -            | (37)            | (12)            | (37)           | (50)           |
| (87)          | 61           | 1               | (13)            | 4 416          | (3 552)        |
| -             | -            | (681)           | (1 088)         | (681)          | (1 088)        |

## 35) Risk management

### **Risk strategy and policy**

The Group takes a prudent and responsible approach to risk and risk-adjusted approach to revenues. Risk appetite of the Group (the maximum level of risk that the Group is willing to undertake) is clearly defined, measurable and widely understood. The Group offsets its risk appetite with sufficient amount of internal capital to cover unexpected losses.

The Group prefers sustainability to short-term high-risk returns. The risk/return profile and the balance of risks follow this principle in order to generate sustainable and adequate return on capital.

Risk functions are independent from the commercial business lines. Risk management is centralized and the Group strives for an integrated risk management framework where all relevant risks are managed comprehensively and where dependencies between different risk types are accounted for.

The Group shall make sure that risk management is properly supported in terms of human, IT and other resources needed for comprehensive coverage of all major drivers of risk.

The primary risk management objective of the Group is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively. These policies must be periodically reviewed in order to ensure their appropriateness in terms of their performance and in terms of changing circumstances of the Group's operating environment.

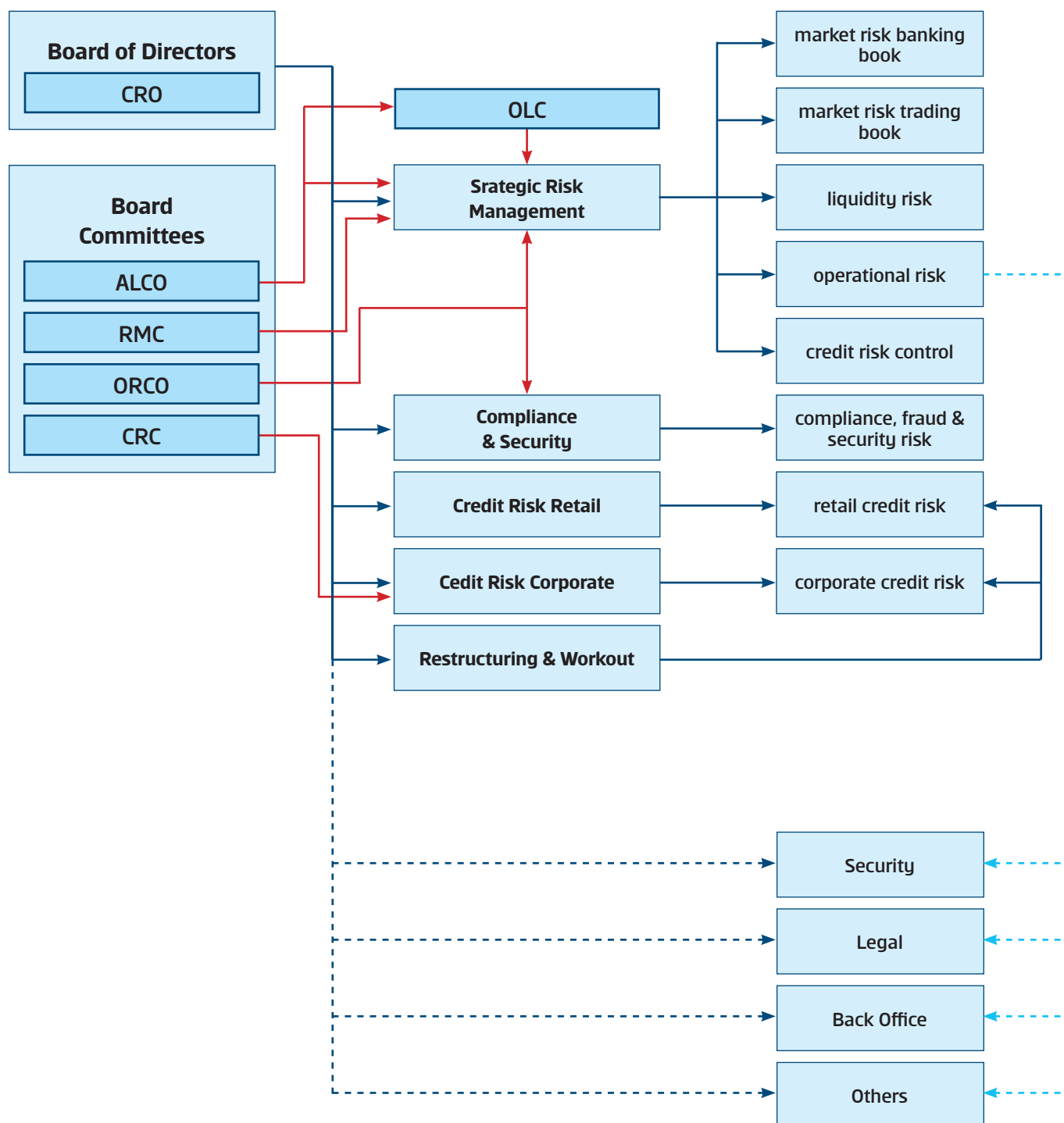
Risk taking is an inseparable part of the Group's operations and Group business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

Ultimately, risks should be quantified to the greatest possible extent (considering reasonable effort) and performance measurement of the Group should be risk weighted. Therefore, the model for calculation and allocation of economic capital is continuously being improved and the Group has established an internal capital management process (ICAAP).

The Group is also committed to follow the risk management provisions defined by both local, as well as international laws and regulators.

## Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the organizational structure of risk in the Group:



## Risk management structure

The ultimate risk management body is the Board of Directors. However, it may delegate some of its authority for particular risk management areas to the respective committees. The Board of Directors also designates one of its members to serve as the Chief Risk Officer ('CRO').

Asset & Liability Committee ('ALCO') has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

Credit Risk Committee ('CRC') is the ultimate decision making body for corporate credit risk.

Operational Risk and Compliance Committee ('ORCO') is the authorized body to make decisions on operational risk strategies and procedures, risk appetite and tolerance levels, also decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, CRC and ORCO are composed of the members of the Board of Directors and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee ('OLC') governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the Group on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, BSM and Strategic Risk Management.

Risk Management Committee ('RMC') is a committee consisting of selected members of the Board of Directors and senior managers. It is responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, as well as for comprehensive stress testing.

The bottom (executive) level of the risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division carries out all activities concerning operative credit risk of corporate clients.
- Retail Credit Risk Management Division is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, early collection process, collateral management and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models.
- Compliance & Security is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue/dashed lines in the chart).
- Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. It is also responsible for monitoring, restructuring of receivables over-due, specific provisions and collateral management

In the chart above, black lines show the assignment of different risk types to the respective units. Solid black lines show the areas directly subordinated to the Chief Risk Officer. Strategic Risk Management and Corporate Credit Risk Management may also report directly to their respective committees as shown by red / dotted lines.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in the Group's risk management strategy.

## Comprehensive risk and capital management

Internal Capital Adequacy Assessment Process ('ICAAP') is a process in which all significant risks that the Group faces must be covered by internal capital (i.e. coverage potential). This means that all material risks are determined, quantified, aggregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Group consists of the following steps:

- Risk materiality assessment
  - identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation
- Risk-bearing capacity calculation
  - calculation of the risk exposure for each particular material risk
  - aggregation of the individual risks into a single economic capital figure
  - calculation of internal capital (coverage potential)
  - relating economic to internal capital
- Stress testing
  - verification of economic capital figures via severe, yet plausible stress scenarios
- Capital management
  - management of consistency between economic and internal capital including forecasting

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the Group's management in pursuing its strategy.

## Risk materiality assessment

The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both, quantitative and qualitative factors, which is conducted for each identified risk type the Group faces.

The output of the risk materiality assessment is the set of material risks, which have to be quantified and covered by capital. It also

includes other risk management practices to control and mitigate the identified risks (material or non-material).

## **Risk-bearing capacity calculation**

The risk-bearing capacity calculation ('RCC') is ultimately the tool to define capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are aggregated into a capital requirement and compared to the coverage potential and the Group's own funds. The integral forecast, risk appetite limit, as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of risk limit's utilization and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks) and in the context of Pillar 2, interest rate risks in the banking book, business and strategic risk, liquidity risk, residual credit risk, and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.9 % confidence level. During the year 2017 the utilization of the economic capital was below 50 %.

Other risks, namely credit concentration risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and/or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined with profit of the current year, considering subordinated liabilities and regulatory deductibles, as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the Group's operations.

## **Stress testing**

Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99.9 % confidence on one year horizon means an extreme loss that occurs once in thousand years. At this levels the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the Group's positions, thus providing further assurance of internal capital adequacy. Should stress testing results show

potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

## **Capital management**

Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so, and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the Group's business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure day-to-day adherence to the approved risk profile and capital levels.

## **Risk planning and forecasting**

The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both, forward- and backward-looking component, focusing on portfolio and economic environment changes.

## **Capital allocation**

An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Strategic Risk Management and Accounting and Controlling.

## **Credit risk**

Credit risk, in broad terms, is the risk that a loss will be incurred if the Group's counterparty to a transaction does not fulfill its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the Group. It results from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk includes also sovereign, country, concentration, settlement, counterparty and dilution risks.

The Group shall follow the policy of long-term risk-adjusted profitability and the principle of adequate pricing (higher credit risk leads to higher risk premium).

The Group shall annually review its credit risk tolerance, and shall set priorities, i.e. quantitative and qualitative measures, for the next term with respect to the credit risk point of view.

Three fundamental layers of documents regulate the credit activity of the Group. The credit strategy, defined by the top management, introduces the overall orientation, areas of activity and strategic objectives of the Group. The credit policy



sets out the principles, identifies operating procedures, and specifies framework responsibilities related to credit activities. Subordinated internal provisions take the form of detailed manuals or department-specific instructions or guidelines, describing precisely responsibilities to the lowest levels, any applicable deadlines, reports and other relevant contingencies of credit process and credit risk management.

The organization of the Group's credit activity is governed by the following principles:

- clear segregation of credit risk management function from business activities or delegation of these activities to business function with clearly defined split of responsibilities
- centralization of operative credit risk management – independent credit risk management divisions for both, corporate and retail segments
- flexibility and accuracy of credit process and quality of credit decisions
- personally assigned and clearly specified competences
- general application of four-eye principle in all critical lending processes (with justified exceptions)
- diversification of credit portfolio in order to keep the exposures within defined limits
- independent credit risk control function – Strategic Risk Management

### Strategic risk management

Strategic Risk Management, more specifically its Credit Risk Control department, is the independent risk control unit in line with capital requirements regulation and directive. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the Group's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to capital requirements regulation and directive and model for economic capital. In addition to this, SRM has two other specific roles:

- credit exposures to banks, sovereigns and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally approved and monitored by SRM;
- credit lines of Treasury clients (approved by Credit Risk Corporate or Credit Committee) are determined and monitored by SRM.

### Retail credit risk management division

Retail Credit Risk Management Division formulates the credit policy and internal actions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). Furthermore, it monitors the development of credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limits documentation, as well as performs early and late collection and retail collateral management.

### Corporate credit risk management division

Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis

of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). Furthermore, it monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits, maintains deal and limits documentation for corporate clients.

### Restructuring & Workout

Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring, restructuring of receivables overdue, specific provisions and collateral management for corporate clients.

### Internal rating system

The approval by the Financial Market Authority of Austria and the National Bank of Slovakia indicated that the Group's credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation, as well as into internal controls and reporting and that they play the essential role.

All material aspects of the rating and estimation processes shall be approved by the Board of Directors. Together with senior management, they shall possess a general understanding of the internal rating system and detailed comprehension of associated management reports.

Senior management, with main responsibility on the head of Strategic Risk Management, shall ensure on an ongoing basis that the rating systems are operating properly. Senior management shall be regularly informed by the credit risk control unit about the performance of the rating process, areas needing improvement and the status of efforts to improve previously identified deficiencies.

The rating system of the Group comprises all methods, processes, control mechanisms, data collection and IT systems supporting credit risk measurement, assigning exposures to risk grades and risk pools and quantification of risk parameters. The rating system consists of several rating methods and rating tools depending on obligor asset class and other obligor characteristics.

Internal rating is a cornerstone of a complex credit risk management system of the Group. It is a fundamental indicator of the probability of default of a client. The result of a rating assessment is the allocation of an obligor into a particular rating grade.

The internal rating is composed of hard and soft facts about the client and possibly also includes transformed selected external investment rating(s). The Group shall use comprehensive rating systems for evaluation of both retail and corporate clients. Obligors in a given asset class and rating method, which have similar probability of default should have the same rating grade. Rating scale should have sufficient discriminatory power to properly distinguish between various levels of credit risk. Distribution of obligors in a given rating grade should be such that the risk parameters quantification for that grade is sufficiently accurate.

Credit Risk Models department is responsible for development of scoring and rating models. Performance of the models, i.e.

accuracy and selectivity of internal rating grades, is regularly monitored and reported. Full scope validation of the models is performed on an annual basis.

Assigned ratings shall be reviewed at least annually. Behavioural (batch) rating shall be used for retail exposures, other exposure classes shall be reviewed by Corporate Credit Risk Management Division. If new and important information about the obligor or exposure is available, the rating shall be updated too. It is possible to override a rating only based on information, which is not used by the rating tool, or was not considered during rating approval. All rating overrides shall be recorded and analysed.

The internal rating system shall be properly documented. Detailed principles and processes of the internal rating system shall be specified within internal guidelines.

### **Risk grades**

The classification of credit assets into risk grades is based on the Group's internal ratings. The Group uses two internal risk scales for risk classification for customers that have not defaulted: risk scale of 8 risk grades (for retail) and 13 risk grades (for all other segments). Defaulted customers are classified into a separate risk grade.

### **Default definition**

A default is deemed to have occurred with a client when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the Group without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Group;
- whatever condition or obligation under contract has been breached by client, on the basis of which the Group is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

The Group defines 5 default events:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 – defaulted forbearance
- E4 – exposure write-off
- E5 – bankruptcy

Credit Risk Control department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils EBA criteria and influences estimation of LLP, SRC, etc.

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - other demand deposits,
- financial assets - held for trading (without equity instruments),
- financial assets – designated at fair value through profit or loss (without equity instruments),
- financial assets - available for sale (without equity instruments),
- financial assets - held to maturity,

- loans and receivables to credit institutions,
- loans and receivables to customers,
- positive fair value of derivatives,
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The following table presents the reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure:

| 2017                                                    | Gross carrying amount | Specific allowances for individually assessed financial assets | Specific allowances for collectively assessed financial assets | Collective allowances for incurred but not reported losses | Net carrying amount |
|---------------------------------------------------------|-----------------------|----------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------|---------------------|
| EUR ths.                                                |                       |                                                                |                                                                |                                                            |                     |
| Cash and cash balances                                  | 53 802                | -                                                              | -                                                              | -                                                          | 53 802              |
| Loans and receivables to credit institutions            | 177 616               | -                                                              | -                                                              | 0                                                          | 177 616             |
| Loans and receivables to customers                      | 12 084 524            | 82 730                                                         | 207 065                                                        | 74 995                                                     | 11 719 733          |
| thereof: lending for house purchase                     | 6 950 023             | 3 805                                                          | 80 339                                                         | 24 875                                                     | 6 841 004           |
| thereof: credit for consumption                         | 1 715 672             | 3                                                              | 105 156                                                        | 30 138                                                     | 1 580 374           |
| thereof: corporate loans and others                     | 3 418 829             | 78 922                                                         | 21 570                                                         | 19 982                                                     | 3 298 355           |
| Financial assets - held to maturity                     | 2 644 730             | -                                                              | -                                                              | 328                                                        | 2 644 402           |
| Financial assets - held for trading                     | -                     | -                                                              | -                                                              | -                                                          | -                   |
| Financial assets - at fair value through profit or loss | -                     | -                                                              | -                                                              | -                                                          | -                   |
| Financial assets - available for sale                   | 972 734               | -                                                              | -                                                              | -                                                          | 972 734             |
| Positive fair value of derivatives                      | 43 244                | -                                                              | -                                                              | -                                                          | 43 244              |
| <b>Total credit risk exposure on-balance</b>            | <b>15 976 650</b>     | <b>82 730</b>                                                  | <b>207 065</b>                                                 | <b>75 323</b>                                              | <b>15 611 532</b>   |
| Off - balance sheet items                               | 1 619 165             | 8 117                                                          | 461                                                            | 6 513                                                      | 1 604 074           |
| <b>Total</b>                                            | <b>17 595 815</b>     | <b>90 847</b>                                                  | <b>207 526</b>                                                 | <b>81 836</b>                                              | <b>17 215 606</b>   |

| 2016                                                    | Gross carrying amount | Specific allowances for individually assessed financial assets | Specific allowances for collectively assessed financial assets | Collective allowances for incurred but not reported losses | Net carrying amount |
|---------------------------------------------------------|-----------------------|----------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------------------------|---------------------|
| EUR ths.                                                |                       |                                                                |                                                                |                                                            |                     |
| Cash and cash balances                                  | -                     | -                                                              | -                                                              | -                                                          | -                   |
| Loans and receivables to credit institutions            | 89 982                | -                                                              | -                                                              | 36                                                         | 89 946              |
| Loans and receivables to customers                      | 10 593 133            | 90 672                                                         | 163 025                                                        | 88 967                                                     | 10 250 469          |
| thereof: lending for house purchase                     | 6 100 019             | 3 895                                                          | 65 531                                                         | 29 957                                                     | 6 000 637           |
| thereof: credit for consumption                         | 1 551 981             | 12                                                             | 78 246                                                         | 32 231                                                     | 1 441 492           |
| thereof: corporate loans and others                     | 2 941 132             | 86 765                                                         | 19 248                                                         | 26 779                                                     | 2 808 340           |
| Financial assets - held to maturity                     | 2 640 941             | -                                                              | -                                                              | 280                                                        | 2 640 662           |
| Financial assets - held for trading                     | -                     | -                                                              | -                                                              | -                                                          | -                   |
| Financial assets - at fair value through profit or loss | -                     | -                                                              | -                                                              | -                                                          | -                   |
| Financial assets - available for sale                   | 1 027 934             | -                                                              | -                                                              | -                                                          | 1 027 934           |
| Positive fair value of derivatives                      | 52 519                | -                                                              | -                                                              | -                                                          | 52 519              |
| <b>Total credit risk exposure on-balance</b>            | <b>14 404 508</b>     | <b>90 672</b>                                                  | <b>163 025</b>                                                 | <b>89 282</b>                                              | <b>14 061 529</b>   |
| Off - balance sheet items                               | 1 403 458             | 935                                                            | 141                                                            | 10 419                                                     | 1 391 964           |
| <b>Total</b>                                            | <b>15 807 966</b>     | <b>91 607</b>                                                  | <b>163 165</b>                                                 | <b>99 701</b>                                              | <b>15 453 492</b>   |

The credit risk exposure does not cover other assets as their amount is not material and therefore the Group does not collect risk profile parameters for such deals.

The following table presents credit risk exposure by industry and risk category:

| 2017                             | Investment grade  | Subinvestment grade | Non-performing loans | Total credit risk exposure |
|----------------------------------|-------------------|---------------------|----------------------|----------------------------|
|                                  |                   |                     |                      |                            |
| EUR ths.                         |                   |                     |                      |                            |
| Agriculture and forestry         | 80 066            | 33 949              | 1 931                | 115 947                    |
| Mining                           | 42 873            | 4 506               | -                    | 47 378                     |
| Manufacturing                    | 812 974           | 80 143              | 21 081               | 914 198                    |
| Energy and water supply          | 413 267           | 5 866               | 77                   | 419 210                    |
| Construction                     | 222 653           | 10 932              | 13 451               | 247 036                    |
| Development of building projects | 32 651            | -                   | 1 849                | 34 500                     |
| Trade                            | 514 718           | 66 121              | 20 007               | 600 846                    |
| Transport and communication      | 584 608           | 11 754              | 5 320                | 601 681                    |
| Hotels and restaurants           | 70 445            | 4 551               | 4 904                | 79 901                     |
| Financial and insurance services | 571 798           | 515                 | 305                  | 572 618                    |
| Holding companies                | 24 614            | -                   | 280                  | 24 894                     |
| Real estate and housing          | 1 001 558         | 16 517              | 114 792              | 1 132 866                  |
| Services                         | 111 830           | 17 859              | 6 432                | 136 121                    |
| Public administration            | 3 558 327         | 2 114               | -                    | 3 560 440                  |
| Education, health and art        | 50 164            | 2 575               | 282                  | 53 022                     |
| Private households               | 8 250 211         | 545 977             | 318 003              | 9 114 192                  |
| Other                            | 25                | 333                 | 1                    | 359                        |
| <b>Total</b>                     | <b>16 285 517</b> | <b>803 712</b>      | <b>506 586</b>       | <b>17 595 815</b>          |

| 2016                             | Investment grade  | Subinvestment grade | Non-performing loans | Total credit risk exposure |
|----------------------------------|-------------------|---------------------|----------------------|----------------------------|
|                                  |                   |                     |                      |                            |
| EUR ths.                         |                   |                     |                      |                            |
| Agriculture and forestry         | 71 498            | 31 987              | 1 358                | 104 843                    |
| Mining                           | 19 968            | 11                  | 1                    | 19 980                     |
| Manufacturing                    | 716 635           | 100 964             | 22 377               | 839 975                    |
| Energy and water supply          | 375 126           | 1 566               | 117                  | 376 810                    |
| Construction                     | 220 047           | 33 832              | 19 286               | 273 164                    |
| Development of building projects | 54 051            | 156                 | 2 632                | 56 839                     |
| Trade                            | 473 270           | 56 743              | 22 000               | 552 013                    |
| Transport and communication      | 461 434           | 7 903               | 5 515                | 474 851                    |
| Hotels and restaurants           | 45 573            | 22 466              | 5 808                | 73 847                     |
| Financial and insurance services | 404 281           | 1 283               | 8                    | 405 571                    |
| Holding companies                | 36 747            | -                   | -                    | 36 747                     |
| Real estate and housing          | 726 610           | 21 838              | 129 600              | 878 048                    |
| Services                         | 81 321            | 8 084               | 4 786                | 94 192                     |
| Public administration            | 3 604 712         | 1 901               | -                    | 3 606 613                  |
| Education, health and art        | 41 346            | 2 875               | 1 013                | 45 234                     |
| Private households               | 7 226 981         | 522 681             | 312 738              | 8 062 400                  |
| Other                            | 6                 | 419                 | 1                    | 425                        |
| <b>Total</b>                     | <b>14 468 808</b> | <b>814 553</b>      | <b>524 608</b>       | <b>15 807 966</b>          |

Clients are classified into respective risk categories based on rating grade by following way:

- investment grade – rating grade from 1 to 5c / 1 to 5
- subinvestment grade – rating grade 6a – 8 / 6 – 8, N
- non-performing loans – rating grade R (default) or clients with status NP FB (nNon-performing forbearance)

The increasing internal rating of clients corresponds with their increasing credit risk. When assigning the rating the Group considers financial position and performance of counterparty, qualitative factors, as well as general economic trends in particular industry and country.

The following table presents credit risk exposure by region and financial instrument:

| 2017<br>EUR ths.                            | Cash and cash<br>balances | Loans and receiv-<br>ables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial<br>assets - held to<br>maturity |
|---------------------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|-------------------------------------------|
|                                             |                           |                                                      | thereof: Lending<br>for house pur-<br>chase | thereof: Credit for<br>consumption | thereof: Corporate<br>loans and others |                                           |
| <b>Slovakia</b>                             | -                         | 79                                                   | 6 944 768                                   | 1 714 487                          | 3 350 262                              | 2 398 418                                 |
| <b>Central and Eastern Europe</b>           | 53 302                    | 177 532                                              | 1 840                                       | 479                                | 33 429                                 | -                                         |
| Austria                                     | 3 467                     | 135 718                                              | 186                                         | 18                                 | 493                                    | -                                         |
| Czech Republic                              | 49 764                    | 39 139                                               | 1 152                                       | 316                                | 30 679                                 | -                                         |
| Hungary                                     | 57                        | 2 675                                                | 66                                          | -                                  | 1 583                                  | -                                         |
| Croatia                                     | 11                        | -                                                    | -                                           | 46                                 | 253                                    | -                                         |
| Romania                                     | 3                         | -                                                    | 344                                         | 51                                 | 420                                    | -                                         |
| Serbia                                      | -                         | -                                                    | 93                                          | 47                                 | 1                                      | -                                         |
| <b>Other EU</b>                             | 341                       | 4                                                    | 1 500                                       | 212                                | 33 499                                 | 246 312                                   |
| <b>Other industrialised coun-<br/>tries</b> | 159                       | -                                                    | 344                                         | 38                                 | 104                                    | -                                         |
| <b>Emerging markets</b>                     | -                         | 1                                                    | 1 570                                       | 456                                | 1 535                                  | -                                         |
| <b>Total</b>                                | 53 802                    | 177 616                                              | 6 950 023                                   | 1 715 672                          | 3 418 829                              | 2 644 730                                 |

| 2016<br>EUR ths.                            | Cash and cash<br>balances | Loans and receiv-<br>ables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial<br>assets - held to<br>maturity |
|---------------------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|-------------------------------------------|
|                                             |                           |                                                      | thereof: Lending<br>for house pur-<br>chase | thereof: Credit for<br>consumption | thereof: Corporate<br>loans and others |                                           |
| <b>Slovakia</b>                             | -                         | 30                                                   | 6 095 755                                   | 1 550 961                          | 2 884 483                              | 2 513 453                                 |
| <b>Central and Eastern Europe</b>           | -                         | 50 866                                               | 1 478                                       | 377                                | 27 727                                 | -                                         |
| Austria                                     | -                         | 17 086                                               | 188                                         | 20                                 | 262                                    | -                                         |
| Czech Republic                              | -                         | 31 473                                               | 1 075                                       | 279                                | 25 871                                 | -                                         |
| Hungary                                     | -                         | 2 281                                                | 70                                          | -                                  | 1 027                                  | -                                         |
| Croatia                                     | -                         | 25                                                   | -                                           | 4                                  | 363                                    | -                                         |
| Romania                                     | -                         | 0                                                    | 144                                         | 36                                 | 204                                    | -                                         |
| Serbia                                      | -                         | -                                                    | -                                           | 38                                 | 1                                      | -                                         |
| <b>Other EU</b>                             | -                         | 38 108                                               | 1 127                                       | 224                                | 26 660                                 | 127 489                                   |
| <b>Other industrialised coun-<br/>tries</b> | -                         | 255                                                  | 356                                         | 33                                 | 461                                    | -                                         |
| <b>Emerging markets</b>                     | -                         | 722                                                  | 1 304                                       | 387                                | 1 801                                  | -                                         |
| <b>Total</b>                                | -                         | 89 982                                               | 6 100 019                                   | 1 551 981                          | 2 941 132                              | 2 640 941                                 |

| Financial assets - held for trading | Financial assets - at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|-------------------------------------|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|-------------------------------------|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |   |         |        |           |            |
|---|---|---------|--------|-----------|------------|
| - | - | 881 217 | 32 893 | 1 577 604 | 16 899 728 |
| - | - | 44 139  | 3 210  | 34 952    | 348 882    |
| - | - | -       | 3 120  | 2 516     | 145 518    |
| - | - | 44 139  | 90     | 32 116    | 197 396    |
| - | - | -       | -      | 273       | 4 654      |
| - | - | -       | -      | 2         | 312        |
| - | - | -       | -      | 42        | 860        |
| - | - | -       | -      | 2         | 142        |
| - | - | 40 634  | 7 141  | 3 670     | 333 313    |
| - | - | 6 744   | -      | 6         | 7 396      |
| - | - | -       | -      | 2 934     | 6 496      |
| - | - | 972 734 | 43 244 | 1 619 165 | 17 595 815 |

| Financial assets - held for trading | Financial assets - at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|-------------------------------------|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|-------------------------------------|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |   |           |        |           |            |
|---|---|-----------|--------|-----------|------------|
| - | - | 911 927   | 35 369 | 1 366 989 | 15 358 966 |
| - | - | 43 886    | 8 531  | 31 422    | 164 287    |
| - | - | -         | 8 531  | 2 514     | 28 601     |
| - | - | 43 886    | -      | 28 432    | 131 016    |
| - | - | -         | -      | 374       | 3 753      |
| - | - | -         | -      | 1         | 393        |
| - | - | -         | -      | 6         | 389        |
| - | - | -         | -      | 95        | 134        |
| - | - | 65 348    | 8 618  | 4 292     | 271 865    |
| - | - | 6 774     | -      | 5         | 7 884      |
| - | - | -         | -      | 749       | 4 964      |
| - | - | 1 027 934 | 52 519 | 1 403 458 | 15 807 966 |



The following table presents credit risk exposure according to EBA definition:

| 2017                                                    | Non-impaired loans             |                               |                                |
|---------------------------------------------------------|--------------------------------|-------------------------------|--------------------------------|
|                                                         | Total past due non<br>Impaired | Thereof 1-30 days<br>past due | Thereof 31-60 days<br>past due |
| EUR ths.                                                |                                |                               |                                |
| Cash and cash balances                                  | -                              | -                             | -                              |
| Loans and receivables to credit institutions            | 38                             | 38                            | -                              |
| Loans and receivables to customers                      | 328 650                        | 298 467                       | 19 821                         |
| thereof: lending for house purchase                     | 131 401                        | 116 198                       | 10 482                         |
| thereof: credit for consumption                         | 84 289                         | 72 813                        | 6 615                          |
| thereof: corporate loans and others                     | 112 959                        | 109 457                       | 2 724                          |
| Financial assets - held to maturity                     | -                              | -                             | -                              |
| Financial assets - held for trading                     | -                              | -                             | -                              |
| Financial assets - at fair value through profit or loss | -                              | -                             | -                              |
| Financial assets - available for sale                   | -                              | -                             | -                              |
| Positive fair value of derivatives                      | -                              | -                             | -                              |
| <b>Total Credit Risk Exposure On-Balance</b>            | <b>328 688</b>                 | <b>298 505</b>                | <b>19 821</b>                  |
| Off - balance sheet items                               | 82 546                         | 82 500                        | 33                             |
| <b>Total</b>                                            | <b>411 234</b>                 | <b>381 005</b>                | <b>19 854</b>                  |

| 2016                                                    | Non-impaired loans             |                               |                                |
|---------------------------------------------------------|--------------------------------|-------------------------------|--------------------------------|
|                                                         | Total past due non<br>Impaired | Thereof 1-30 days<br>past due | Thereof 31-60 days<br>past due |
| EUR ths.                                                |                                |                               |                                |
| Cash and cash balances                                  | -                              | -                             | -                              |
| Loans and receivables to credit institutions            | -                              | -                             | -                              |
| Loans and receivables to customers                      | 296 401                        | 240 345                       | 35 968                         |
| thereof: lending for house purchase                     | 129 228                        | 97 717                        | 20 054                         |
| thereof: credit for consumption                         | 85 902                         | 68 501                        | 10 198                         |
| thereof: corporate loans and others                     | 81 271                         | 74 127                        | 5 715                          |
| Financial assets - held to maturity                     | -                              | -                             | -                              |
| Financial assets - held for trading                     | -                              | -                             | -                              |
| Financial assets - at fair value through profit or loss | -                              | -                             | -                              |
| Financial assets - available for sale                   | -                              | -                             | -                              |
| Positive fair value of derivatives                      | -                              | -                             | -                              |
| <b>Total Credit Risk Exposure On-Balance</b>            | <b>296 401</b>                 | <b>240 345</b>                | <b>35 968</b>                  |
| Off - balance sheet items                               | 33 012                         | 32 590                        | 313                            |
| <b>Total</b>                                            | <b>329 413</b>                 | <b>272 935</b>                | <b>36 280</b>                  |

\* Overdue amount is non material, i.e. less than 50 Eur per client in case of Retail, 250 Eur in case of Corporate (materiality limit introduced in the year 2009).

| Non-impaired loans          |                               |                                      |                               | Impaired loans | Total Credit risk exposure |
|-----------------------------|-------------------------------|--------------------------------------|-------------------------------|----------------|----------------------------|
| Thereof 61-90 days past due | Thereof 91-180 days past due* | Thereof more than 180 days past due* | Neither past due non Impaired |                |                            |
| -                           | -                             | -                                    | 53 802                        | -              | 53 802                     |
| -                           | -                             | -                                    | 177 578                       | -              | 177 616                    |
| 9 645                       | 490                           | 227                                  | 11 307 058                    | 448 815        | 12 084 524                 |
| 4 529                       | 125                           | 67                                   | 6 646 392                     | 172 229        | 6 950 023                  |
| 4 534                       | 253                           | 75                                   | 1 503 652                     | 127 730        | 1 715 672                  |
| 582                         | 112                           | 85                                   | 3 157 014                     | 148 856        | 3 418 829                  |
| -                           | -                             | -                                    | 2 644 730                     | -              | 2 644 730                  |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | 972 734                       | -              | 972 734                    |
| -                           | -                             | -                                    | 43 244                        | -              | 43 244                     |
| <b>9 645</b>                | <b>490</b>                    | <b>227</b>                           | <b>15 199 147</b>             | <b>448 815</b> | <b>15 976 650</b>          |
| 11                          | 2                             | -                                    | 1 487 928                     | 48 691         | 1 619 165                  |
| <b>9 656</b>                | <b>492</b>                    | <b>227</b>                           | <b>16 687 075</b>             | <b>497 506</b> | <b>17 595 815</b>          |

| Non-impaired loans          |                               |                                      |                               | Impaired loans | Total Credit risk exposure |
|-----------------------------|-------------------------------|--------------------------------------|-------------------------------|----------------|----------------------------|
| Thereof 61-90 days past due | Thereof 91-180 days past due* | Thereof more than 180 days past due* | Neither past due non Impaired |                |                            |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | 89 982                        | -              | 89 982                     |
| 19 647                      | 200                           | 241                                  | 9 889 424                     | 407 308        | 10 593 133                 |
| 11 252                      | -                             | 205                                  | 5 828 600                     | 142 191        | 6 100 019                  |
| 7 199                       | 3                             | -                                    | 1 368 765                     | 97 314         | 1 551 981                  |
| 1 196                       | 197                           | 36                                   | 2 692 059                     | 167 803        | 2 941 132                  |
| -                           | -                             | -                                    | 2 640 941                     | -              | 2 640 941                  |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | 1 027 934                     | -              | 1 027 934                  |
| -                           | -                             | -                                    | 52 519                        | -              | 52 519                     |
| <b>19 647</b>               | <b>200</b>                    | <b>241</b>                           | <b>13 700 800</b>             | <b>407 308</b> | <b>14 404 508</b>          |
| 52                          | 25                            | 33                                   | 1 367 446                     | 3 000          | 1 403 458                  |
| <b>19 699</b>               | <b>225</b>                    | <b>274</b>                           | <b>15 068 246</b>             | <b>410 307</b> | <b>15 807 966</b>          |

The following table presents credit quality for exposures, which are neither past due nor impaired, by rating grades:

| 2017<br>EUR ths.                | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial assets<br>- held to maturity |
|---------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|----------------------------------------|
|                                 |                           |                                                      | thereof: lending<br>for house pur-<br>chase | thereof: credit for<br>consumption | thereof: corporate<br>loans and others |                                        |
| Investment grade (1-5)          | 53 802                    | 177 578                                              | 6 406 690                                   | 1 382 367                          | 2 987 545                              | 2 644 730                              |
| Subinvestment grade (6)         | -                         | -                                                    | 181 300                                     | 85 684                             | 144 719                                | -                                      |
| Subinvestment grade (7)         | -                         | -                                                    | 44 467                                      | 25 149                             | 16 474                                 | -                                      |
| Subinvestment grade (8)         | -                         | -                                                    | 10 509                                      | 9 447                              | 8 232                                  | -                                      |
| Non-performing loans<br>(NPE)** | -                         | -                                                    | 3 425                                       | 1 005                              | 44                                     | -                                      |
| <b>Total</b>                    | <b>53 802</b>             | <b>177 578</b>                                       | <b>6 646 392</b>                            | <b>1 503 652</b>                   | <b>3 157 014</b>                       | <b>2 644 730</b>                       |

| 2016<br>EUR ths.                | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial assets<br>- held to maturity |
|---------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|----------------------------------------|
|                                 |                           |                                                      | thereof: lending<br>for house pur-<br>chase | thereof: credit for<br>consumption | thereof: corporate<br>loans and others |                                        |
| Investment grade (1-5)          | -                         | 89 427                                               | 5 578 892                                   | 1 236 234                          | 2 506 113                              | 2 640 941                              |
| Subinvestment grade (6)         | -                         | 555                                                  | 173 751                                     | 88 729                             | 115 020                                | -                                      |
| Subinvestment grade (7)         | -                         | -                                                    | 38 515                                      | 26 603                             | 26 133                                 | -                                      |
| Subinvestment grade (8)         | -                         | -                                                    | 10 743                                      | 10 421                             | 43 420                                 | -                                      |
| Non-performing loans<br>(NPE)** | -                         | -                                                    | 26 698                                      | 6 777                              | 1 372                                  | -                                      |
| <b>Total</b>                    | <b>-</b>                  | <b>89 982</b>                                        | <b>5 828 600</b>                            | <b>1 368 765</b>                   | <b>2 692 059</b>                       | <b>2 640 941</b>                       |

\*\* Methodology change in classification of impaired loans.

In January 2017 the Group has adjusted the reporting of defaulted loans, which lead into a one-off increase of the gross carrying amount in the stock of defaulted loans by 45,4 mil EUR and additional increase in the corresponding loss allowances by the same amount. This change did not have any impact on the net carrying amount of defaulted loans nor on the profit of the Group.

| Financial assets - held for trading | Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total neither past due nor impaired exposure |
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------------------------|
| -                                   | -                                                                  | 972 734                               | 42 549                             | 1 419 989               | 16 087 984                                   |
| -                                   | -                                                                  | -                                     | 677                                | 57 175                  | 469 555                                      |
| -                                   | -                                                                  | -                                     | 10                                 | 9 669                   | 95 770                                       |
| -                                   | -                                                                  | -                                     | -                                  | 1 012                   | 29 200                                       |
| -                                   | -                                                                  | -                                     | 8                                  | 83                      | 4 565                                        |
| -                                   | -                                                                  | <b>972 734</b>                        | <b>43 244</b>                      | <b>1 487 928</b>        | <b>16 687 075</b>                            |

| Financial assets - held for trading | Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total neither past due nor impaired exposure |
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------------------------|
| -                                   | -                                                                  | 1 027 934                             | 51 178                             | 1 224 977               | 14 355 697                                   |
| -                                   | -                                                                  | -                                     | 730                                | 62 689                  | 441 475                                      |
| -                                   | -                                                                  | -                                     | 42                                 | 3 917                   | 95 210                                       |
| -                                   | -                                                                  | -                                     | 560                                | 29 443                  | 94 588                                       |
| -                                   | -                                                                  | -                                     | 9                                  | 46 420                  | 81 277                                       |
| -                                   | -                                                                  | <b>1 027 934</b>                      | <b>52 519</b>                      | <b>1 367 446</b>        | <b>15 068 246</b>                            |

The following table presents credit risk exposure by industry:

| 2017<br>EUR ths.                 | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and<br>receivables to<br>customers | Financial assets -<br>held to maturity | Financial assets - held<br>for trading |
|----------------------------------|---------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|----------------------------------------|
| Agriculture and forestry         | -                         | -                                                    | 99 112                                   | -                                      | -                                      |
| Mining                           | -                         | -                                                    | 39 180                                   | -                                      | -                                      |
| Manufacturing                    | -                         | -                                                    | 612 990                                  | -                                      | -                                      |
| Energy and water supply          | -                         | -                                                    | 331 939                                  | -                                      | -                                      |
| Construction                     | -                         | -                                                    | 99 240                                   | -                                      | -                                      |
| Development of building projects | -                         | -                                                    | 28 857                                   | -                                      | -                                      |
| Trade                            | -                         | -                                                    | 438 560                                  | -                                      | -                                      |
| Transport and communication      | -                         | -                                                    | 351 018                                  | -                                      | -                                      |
| Hotels and restaurants           | -                         | -                                                    | 72 822                                   | -                                      | -                                      |
| Financial and insurance services | 53 802                    | 177 616                                              | 94 945                                   | 92 205                                 | -                                      |
| Holding companies                | -                         | -                                                    | 3 715                                    | -                                      | -                                      |
| Real estate and housing          | -                         | -                                                    | 867 748                                  | 10 232                                 | -                                      |
| Services                         | -                         | -                                                    | 87 308                                   | -                                      | -                                      |
| Public administration            | -                         | -                                                    | 208 858                                  | 2 542 292                              | -                                      |
| Education, health and art        | -                         | -                                                    | 38 443                                   | -                                      | -                                      |
| Private households               | -                         | -                                                    | 8 742 337                                | -                                      | -                                      |
| Other                            | -                         | -                                                    | 24                                       | -                                      | -                                      |
| <b>Total</b>                     | <b>53 802</b>             | <b>177 616</b>                                       | <b>12 084 524</b>                        | <b>2 644 729</b>                       | <b>-</b>                               |

| 2016<br>EUR ths.                 | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and<br>receivables to<br>customers | Financial assets -<br>held to maturity | Financial assets - held<br>for trading |
|----------------------------------|---------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|----------------------------------------|
| Agriculture and forestry         | -                         | -                                                    | 86 209                                   | -                                      | -                                      |
| Mining                           | -                         | -                                                    | 14 641                                   | -                                      | -                                      |
| Manufacturing                    | -                         | -                                                    | 527 161                                  | -                                      | -                                      |
| Energy and water supply          | -                         | -                                                    | 280 210                                  | -                                      | -                                      |
| Construction                     | -                         | -                                                    | 88 954                                   | -                                      | -                                      |
| Development of building projects | -                         | -                                                    | 38 225                                   | -                                      | -                                      |
| Trade                            | -                         | -                                                    | 387 687                                  | -                                      | -                                      |
| Transport and communication      | -                         | -                                                    | 272 918                                  | -                                      | -                                      |
| Hotels and restaurants           | -                         | -                                                    | 70 135                                   | -                                      | -                                      |
| Financial and insurance services | -                         | 89 981                                               | 83 538                                   | 63 468                                 | -                                      |
| Holding companies                | -                         | -                                                    | 15 017                                   | -                                      | -                                      |
| Real estate and housing          | -                         | -                                                    | 752 068                                  | 101                                    | -                                      |
| Services                         | -                         | -                                                    | 67 454                                   | -                                      | -                                      |
| Public administration            | -                         | -                                                    | 196 301                                  | 2 577 372                              | -                                      |
| Education, health and art        | -                         | -                                                    | 34 682                                   | -                                      | -                                      |
| Private households               | -                         | -                                                    | 7 731 169                                | -                                      | -                                      |
| Other                            | -                         | 1                                                    | 5                                        | -                                      | -                                      |
| <b>Total</b>                     | <b>-</b>                  | <b>89 982</b>                                        | <b>10 593 132</b>                        | <b>2 640 941</b>                       | <b>-</b>                               |

| Financial assets - at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
| -                                                       | -                                     | 127                                | 16 709                  | 115 947                    |
| -                                                       | -                                     | 86                                 | 8 112                   | 47 378                     |
| -                                                       | 6 605                                 | 519                                | 294 083                 | 914 198                    |
| -                                                       | -                                     | 26 832                             | 60 439                  | 419 210                    |
| -                                                       | -                                     | 649                                | 147 148                 | 247 036                    |
| -                                                       | -                                     | 621                                | 5 022                   | 34 500                     |
| -                                                       | -                                     | 704                                | 161 583                 | 600 846                    |
| -                                                       | 114 371                               | 485                                | 135 807                 | 601 681                    |
| -                                                       | -                                     | 332                                | 6 746                   | 79 901                     |
| -                                                       | 69 256                                | 10 793                             | 74 000                  | 572 618                    |
| -                                                       | -                                     | 9                                  | 21 170                  | 24 894                     |
| -                                                       | -                                     | 2 261                              | 252 625                 | 1 132 866                  |
| -                                                       | -                                     | 16                                 | 48 797                  | 136 121                    |
| -                                                       | 782 502                               | -                                  | 26 789                  | 3 560 440                  |
| -                                                       | -                                     | 7                                  | 14 572                  | 53 022                     |
| -                                                       | -                                     | 99                                 | 371 755                 | 9 114 192                  |
| -                                                       | -                                     | 333                                | 2                       | 359                        |
| -                                                       | <b>972 734</b>                        | <b>43 243</b>                      | <b>1 619 167</b>        | <b>17 595 815</b>          |

| Financial assets - at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
| -                                                       | -                                     | 244                                | 18 391                  | 104 843                    |
| -                                                       | -                                     | 175                                | 5 164                   | 19 980                     |
| -                                                       | 6 706                                 | 251                                | 305 858                 | 839 975                    |
| -                                                       | -                                     | 27 234                             | 69 366                  | 376 810                    |
| -                                                       | -                                     | 932                                | 183 278                 | 273 164                    |
| -                                                       | -                                     | 887                                | 17 726                  | 56 839                     |
| -                                                       | -                                     | 261                                | 164 064                 | 552 013                    |
| -                                                       | 119 154                               | 860                                | 81 919                  | 474 851                    |
| -                                                       | -                                     | 560                                | 3 152                   | 73 847                     |
| -                                                       | 78 717                                | 18 544                             | 71 323                  | 405 571                    |
| -                                                       | -                                     | -                                  | 21 730                  | 36 747                     |
| -                                                       | -                                     | 2 826                              | 123 052                 | 878 048                    |
| -                                                       | -                                     | 103                                | 26 634                  | 94 192                     |
| -                                                       | 823 357                               | -                                  | 9 583                   | 3 606 613                  |
| -                                                       | -                                     | 8                                  | 10 545                  | 45 234                     |
| -                                                       | -                                     | 102                                | 331 129                 | 8 062 400                  |
| -                                                       | -                                     | 419                                | 1                       | 425                        |
| -                                                       | <b>1 027 934</b>                      | <b>52 519</b>                      | <b>1 403 459</b>        | <b>15 807 966</b>          |



The following table presents credit risk exposure by Basel 3 exposure class and financial instrument:

| 2017<br>EUR ths. | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and<br>receivables to<br>customers | Financial assets -<br>held to maturity | Financial assets - held<br>for trading |
|------------------|---------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|----------------------------------------|
| Sovereigns       | -                         | -                                                    | 217 113                                  | 2 542 292                              | -                                      |
| Institutions     | 53 802                    | 177 616                                              | -                                        | 92 205                                 | -                                      |
| Corporates       | -                         | -                                                    | 2 557 181                                | 10 232                                 | -                                      |
| Retail           | -                         | -                                                    | 9 310 230                                | -                                      | -                                      |
| <b>Total</b>     | <b>53 802</b>             | <b>177 616</b>                                       | <b>12 084 524</b>                        | <b>2 644 730</b>                       | <b>-</b>                               |

| 2016<br>EUR ths. | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and<br>receivables to<br>customers | Financial assets -<br>held to maturity | Financial assets - held<br>for trading |
|------------------|---------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|----------------------------------------|
| Sovereigns       | -                         | -                                                    | 196 193                                  | 2 577 372                              | -                                      |
| Institutions     | -                         | 89 982                                               | 0                                        | 63 468                                 | -                                      |
| Corporates       | -                         | -                                                    | 2 170 029                                | 101                                    | -                                      |
| Retail           | -                         | -                                                    | 8 226 911                                | -                                      | -                                      |
| <b>Total</b>     | <b>-</b>                  | <b>89 982</b>                                        | <b>10 593 133</b>                        | <b>2 640 941</b>                       | <b>-</b>                               |

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the table below and in other tables in section 'Credit risk'. Additionally to central governments, central banks, international organisations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks and recognised investment firms.

| Financial assets - at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |                |               |                  |                   |
|---|----------------|---------------|------------------|-------------------|
| - | 800 553        | -             | 26 737           | 3 586 696         |
| - | 51 204         | 10 261        | 44 959           | 430 048           |
| - | 120 977        | 32 884        | 1 058 040        | 3 779 314         |
| - | -              | 99            | 489 429          | 9 799 758         |
| - | <b>972 734</b> | <b>43 244</b> | <b>1 619 165</b> | <b>17 595 815</b> |

| Financial assets - at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|---------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |                  |               |                  |                   |
|---|------------------|---------------|------------------|-------------------|
| - | 841 430          | -             | 9 554            | 3 624 548         |
| - | 60 644           | 17 149        | 43 365           | 274 608           |
| - | 125 860          | 35 267        | 914 634          | 3 245 891         |
| - | -                | 102           | 435 905          | 8 662 919         |
| - | <b>1 027 934</b> | <b>52 519</b> | <b>1 403 458</b> | <b>15 807 966</b> |

## Forbearance

In September 2014 the Group has implemented a forbearance definition based on the EBA definition. The forborne exposure can be identified in both, performing and non-performing portfolios:

- Performing forbearance – forbore loans for customers without financial difficulties
- Non-performing forbearance – forbore loans for customers, which defaulted after forbearance
- Defaulted forbearance – forbore loans for customers in default

The following table presents carrying amounts of renegotiated loans, which are exposures with performing forbearance status:

| EUR ths.           | 2016          | 2017          |
|--------------------|---------------|---------------|
| Renegotiated loans | 96 867        | 81 615        |
| <b>Total</b>       | <b>96 867</b> | <b>81 615</b> |

The following table presents a summary of the Group's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government and similar exposures:

| EUR ths.                           | Suma             |                  | Portion of total assets % |               |
|------------------------------------|------------------|------------------|---------------------------|---------------|
|                                    | 2016             | 2017             | 2016                      | 2017          |
| Cash and balances                  | 79 916           | 640              | 0,54%                     | 0,00%         |
| Loans and receivables to customers | 409 946          | 440 184          | 2,77%                     | 2,69%         |
| Securities portfolios              | 3 241 450        | 3 060 427        | 21,86%                    | 18,73%        |
| Deferred tax assets                | 34 030           | 33 711           | 0,22%                     | 0,22%         |
| <b>Total</b>                       | <b>3 765 342</b> | <b>3 534 962</b> | <b>25,40%</b>             | <b>21,63%</b> |

The following table presents a breakdown of state debt securities held by the Group per portfolio and type of security:

| EUR ths.                                     | 2016             | 2017             |
|----------------------------------------------|------------------|------------------|
| <b>Financial assets - available for sale</b> | <b>762 164</b>   | <b>736 123</b>   |
| Slovak government Eurobonds                  | 762 164          | 736 123          |
| <b>Financial assets - held to maturity</b>   | <b>2 479 286</b> | <b>2 324 304</b> |
| State bonds denominated in EUR               | 2 446 130        | 2 295 245        |
| State bonds denominated in USD               | 33 156           | 29 059           |
| <b>Total</b>                                 | <b>3 241 450</b> | <b>3 060 427</b> |

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with positive outlook (since 7 April 2017).

## Market risk

Market risk is the risk of losses in balance sheet and off-balance sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- risk identification – identify all risks inherent in the trading operations and in new products (new products check) and ensure these are subject to adequate procedures and controls before being introduced or undertaken
- risk measurement – calculation of risk exposure using sensitivities and value-at-risk
- limits management – comprehensive limit system and limit allocation in order to restrict the maximum risk exposure
- risk monitoring and reporting

The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

### Methods and instruments employed

All positions of the Group, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model, and respective profit or loss is calculated.

The main tool to measure market risk exposure in the Group is sensitivity analysis and value-at-risk (VAR) which is complemented by back testing and stress testing programme.

VAR for trading book and investment portfolios of banking book estimates the maximum potential loss over 1-day holding period with 99 % confidence interval and is based on historical simulation (2-years history window, equally weighted) while all positions are treated via full valuation in the calculation (i.e. no simplification of positions for the purpose of VAR). VAR is measured consistently across all portfolios (both banking and trading book) and relevant market factors.

In order to validate the value-at-risk model, daily back testing routines are applied. In the procedure the real value of closing position of the previous trading day is computed first using relevant market rates of that day. The same closing position is then revalued using the closing market rates of the current day. The difference between the two values is the so-called hypothetical profit and loss, i.e. profit and loss that would have been obtained if the position remained unchanged during the last trading day. If this profit or loss figure exceeds the value-at-risk figure, an exception is recorded and documented. Back testing is conducted not only for the whole trading book, but also for each trading desk and additionally for each applicable risk factor (interest rate, FX rate, stock price, volatility, etc.).

VAR is subject to some model assumptions (e.g. historical simulation), hence stress testing is established in order to partially tackle these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

VAR for the overall banking employees Monte Carlo simulation to generate potential future yield curves (99.9 or 0.01 percentiles of the simulated short rate paths) that are then used to calculate change in value caused by that shifts in yield curves.

Overall market risk of the entire balance sheet is also measured using economic value of equity measure based on EBA guidelines – all positions of the Group are re-valued using an extreme (200 bp) up and down parallel shift of the yield curve and the resulting sensitivity is related to the available capital. Additional six non-parallel scenarios are also calculated.

### Risk mitigation and reporting

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VAR, sensitivity, and stop-loss limits. Limits are structured according to individual sub-portfolios (separate limits are defined for derivative trades). Monitoring is performed daily by SRM.

Risk reporting is done daily for relevant management and monthly for ALCO.

## Market risk measures

The following tables summarize the risk measures – Value at Risk of banking book and trading book:

| EUR mil.                                       | 2016  | 2017  |
|------------------------------------------------|-------|-------|
| Trading book VAR                               | 0,0   | 0,0   |
| Banking book VAR - ALM portfolio               | 14,5  | 10,5  |
| Banking book VAR - Corporate portfolio         | 1,8   | 1,0   |
| Overall Banking book VAR (November 2015)       | 130,3 | 84,3  |
| Overall Banking book sensitivity (200bp shock) | 191,0 | 143,5 |

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

## FX risk

Basis principle behind managing FX risk is to transfer positions stemming from banking book activities to Erste Holding. However, in reasonable cases, banking book is permitted to hold strategic FX positions. This would typically be opened in order to hedge existing FX positions that are not explicitly seen on the balance sheet.

Strategic positions are subject to ALCO approval and shall be managed on a daily basis by Balance Sheet Management. They are covered by sufficient limit structure and reporting on VAR, stop

loss limit and P/L (responsibility of Strategic Risk Management).

## Liquidity risk

The liquidity risk is defined in the Group as the inability to meet the Group's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Groups will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Group.

Liquidity risk is within the authority of ALCO. The Local Operating Liquidity Committee ('L-OLC') is responsible for operational managing and analysing of the liquidity situation of the Group.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

## Liquidity strategy

The primary goal of the funding strategy in the year 2017 was to cover the planned funding gap coming from the core business efficiently in terms of structure and costs vs. risk tolerance. This has been successfully achieved as the Group comfortably fulfills all regulatory and internal liquidity limits and keeps sufficient

liquidity buffer composed mainly of government securities.

## Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period (SPA) on weekly basis. This analysis determines the maximum period during which the Group can survive different crisis scenarios (severe market, idiosyncratic, or combined crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow.

Liquidity ratios defined by the regulator (LCR, NSFR and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO. Funding concentration risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Strategic Risk Management provides the reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the Group to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

## Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 2 months
- severe market crisis – over 2 months
- combined name and market crisis – over 1 month

The minimum volume of the liquidity buffer (counter-balancing capacity) is limited by 1,5 bn Eur. The Group daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks, as well as unencumbered

central bank eligible assets. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation. Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR, NFSR, and local LCR ratios.

Funding Concentrations management - sum of top 10 biggest clients of each monitored group of wholesale funding providers (public, financial, credit institutions and corporates) may not account for more than 500 mil. Eur. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be

informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

#### Analysis of liquidity risk

All regulatory ratios were well above the defined regulatory limits during the year 2017.

#### Internal analysis

Counter-balancing capacity – the minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was around 4 bn Eur throughout 2017 (well above the 1,5 bn Eur limit).

As at 31 December 2017:

| in EUR million                   | < 1 week     | 1 week-1 month | 1-3 months | 3-6 months | 6-12 months |
|----------------------------------|--------------|----------------|------------|------------|-------------|
| Cash, excess reserve             | 353          | -              | -          | -          | -           |
| Liquid assets                    | 3 529        | -              | -          | -          | (39)        |
| <b>Counterbalancing capacity</b> | <b>3 882</b> | -              | -          | -          | <b>(39)</b> |

As at 31 December 2016:

| in EUR million                   | < 1 week     | 1 week-1 month | 1-3 months  | 3-6 months   | 6-12 months |
|----------------------------------|--------------|----------------|-------------|--------------|-------------|
| Cash, excess reserve             | 306          | -              | -           | -            | -           |
| Liquid assets                    | 3 544        | (32)           | (11)        | (421)        | -           |
| <b>Counterbalancing capacity</b> | <b>3 850</b> | <b>(32)</b>    | <b>(11)</b> | <b>(421)</b> | -           |



### Survival period horizon

During the year 2017 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 62 days but on average was about six month.

### Funding concentrations

During the year 2017 the funding concentrations limits was violated one time for credit institutions (by the amount of 131 mil. Eur) and four times for public institutions (by the amount about 60 mil. Eur). All of these limit violations were caused by short-dated deposits and all of them were covered by temporary increase of minimum liquidity reserve by the amount of exceeding.

### Operational risk

Main objectives of effective system of operational risk management are:

- set up a Group-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- properly identify major drivers of operational risk
- develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- implement and update of insurance program
- define outsourcing and internal control system principles
- prepare ORCO meetings
- continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- provide quality reporting and documentation

### Risk Identification

Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and/or severity of loss events.

Risk identification should be generally forward-looking. While it is inevitable to use historical loss data, they should be supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors should be translatable into quantitative measures.

The most significant sources of operational risk in the Group are:

- theft and fraud (both external and internal)
- legal risks
- human processing error
- data, infrastructure, and system related risks
- cyber crime
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

### Internal Data

The Group shall maintain a central database of operational risk events and losses. This should be as comprehensive as possible in that it captures all material activities throughout the Group. Data collection is conducted via a web-based application EMUS which was upgraded in 2016. This application now provides more user friendly platform to deal with operational risk losses.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the Group. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the Group has an access right. Information on loss amounts, recoveries, date of event and other relevant descriptive information must be provided.

Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Financial Crime & Compliance, Card Services, Internal Services or Strategic Risk Management. Second stage is a data consistency check and is performed by Compliance and Operational Risk Management. Events should be categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process shall be covered by Operational Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc.

### External Data

As severe operational risk events are scarce, and may not have been captured in internal data collection, the Group shall also include adequate external event data in its risk identification system. These should cover infrequent severe events with relevance to the Group or financial industry. The Group should systematically incorporate external data into its risk measurement methodology. External data collection shall be coordinated with the Erste group efforts on this matter and will be conducted by Operational Risk Management.

### Scenario Analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Group shall include such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk

measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Operational Risk Management.

### Risk Mapping and Key Risk Indicators

The objective of this risk identification technique is to map the level of different operational risks across the Group and to set up a measurable framework known as key risk indicators ('KRI') that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Operational Risk Management, with the help of respective senior or third level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the Group. The resulting map will have three dimensions, namely:

- risk category
- business line/product
- functional process level – where applicable, this provides depth for the business line/product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI should have the following properties:

- it should be easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;
- it should be effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

### Risk Measurement

The Group measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both, frequency of loss and amount of loss, is modelled and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9 % and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification process should be used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems should be used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.

The Group should be able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model should be validated through comparison to actual experience and appropriate corrections should be made. Design of the risk measurement model is within the responsibility of Erste Holding

(for more details see the group AMA documentation). Modelling inputs are provided by Operational Risk Management.

### Managing Operational Risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Operational Risk Management has a harmonization role and performs activities of global scope.

In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance,
- system of internal controls,
- outsourcing,
- risk acceptance,
- decrease of the extent or disposal of the risky activity.

Selection of the approach is by definition the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, the Board of Directors) for approval.

The following sub-sections give an overview of the main activities regarding operational risk management within the Group.

Operational Risk and Compliance Committee is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

Operational Risk Management or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers, and other representatives.

### System of Internal Controls

Each unit manager shall implement a system of internal controls ('ICS') within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc. Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that should be covered by operative controls.

Internal control system shall consist of:

- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself

- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:

- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the Group's ICS in order to determine whether the Group is following enacted policies and procedures. Operational Risk Management shall issue associated Internal Control System Policy giving detailed information on the system. However, SRM does not assume any coordination role in the implementation and execution of ICS by individual managers.

### Insurance

In order to mitigate operational risk, the Group shall engage in a comprehensive insurance program. This should cover direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the Bank and its subsidiaries. The primary objective of the insurance program is to safeguard the Group against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Operational Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which should, inter alia, cover procedures in case of insurance incident.

### Outsourcing

Outsourcing is defined as long-term delegation of internal operation to external entity that specializes in that operation. In context of operational risk management, the primary focus is on outsourcing of banking operations.

Outsourcing should be governed by the following high-level principles:

- outsourcing of any banking operation must be approved by respective decision making body
- the Group neither relinquishes the responsibility for, nor does it get disposed of the risks brought along by such activity
- special attention is to be paid to legal and regulatory issues

Všeobecné zásady outsourcingu sa definujú na úrovni Erste Holding. OGeneral outsourcing policy is defined on Erste Holding level. Operational Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These shall be documented in associated internal policy. All outsourced activities must strictly follow this policy.

Each outsourcing must have an outsourcing sponsor and an

outsourcing manager (both coming from the Group) who are responsible for governance, correct functioning, operational risk, and other issues related to the outsourced activity.

Operational risk management related to outsourcing is within the responsibility of respective outsourcing sponsor and outsourcing manager. Operational Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

## 36) Fair values of financial assets and liabilities

The best indication of a fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (Level 1 of the fair value hierarchy).

In case a market quote is used for a valuation, but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators), the instrument is classified as Level 2 of the fair value hierarchy. In case no market prices are available, the fair value is determined by using valuation models, which are based on observable market data. If all the significant inputs in a valuation model are observable, the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor using valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently, the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations typically credit spreads derived from both external sources (similar securities or issuers) and internal sources (risk parameters such as rating, PD or LGD) are used, besides observable parameters.

### Financial instruments measured at fair value

All financial instruments of this category are measured at fair value on a recurring basis.

In the Group the measurement of fair value is primarily based on external sources of data (stock market prices or broker quotes in highly liquid market segments). The financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities, liquid OTC bonds and derivatives.

### Description of the valuation models and inputs

The Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

## Securities

For plain vanilla debt securities (fixed and floating) the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instrument. If no close proxy instrument is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including also methods described for OTC-derivatives. All securities are valued using the bid/ask levels (depending whether asset or liability), i.e. more conservative than the mid level.

## OTC-derivative financial instruments

Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps, commodity swaps) are valued by standard valuation models. These models include discounting cash flow models, option models of Black-Scholes-type and Hull-White-type. Models are calibrated on quoted market data (including implied volatilities). Valuation model for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used. The Group values derivatives at mid-market levels.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC-derivatives. For CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. The Group has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant products and portfolios. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Group's probability of default has been derived from the buy-back levels of the Group's issuances. Netting has only been considered for a few counterparties where the impact was material. For those netting has been applied for both CVA and DVA. The methodology and the calculation itself are carried out by Erste Holding.

For collateralised derivatives the effect of collateral received is considered and reduces the amount of CVA accordingly. For counterparties with CSA-agreements in place no CVA was taken into

account for all cases with immaterial threshold amounts.

As at 31 December 2017 the cumulative CVA adjustment amounted 0,3 mil. Eur (2016: 1,1 mil.) and the cumulative DVA adjustment amounted 0,2 mil. (2016: 0,8 mil. Eur).

## Description of the valuation process within Level 3

Level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions. This involves estimation and expert judgment.

The responsibility for valuation of a position of measured at fair value is carried out by risk management unit which is independent from all trading, sales, or investment units.

## Fair value hierarchy

The methods used to determine fair values with respect to the levels of fair value hierarchy were as follows:

| EUR ths.                                                           | Quoted market prices in active markets |                | Marked to model based on observable market data |                | Marked to model based on non-observable inputs |              | Total            |                  |
|--------------------------------------------------------------------|----------------------------------------|----------------|-------------------------------------------------|----------------|------------------------------------------------|--------------|------------------|------------------|
|                                                                    | Level 1                                |                | Level 2                                         |                | Level 3                                        |              |                  |                  |
|                                                                    | 2016                                   | 2017           | 2016                                            | 2017           | 2016                                           | 2017         | 2016             | 2017             |
| <b>ASSETS</b>                                                      |                                        |                |                                                 |                |                                                |              |                  |                  |
| Financial assets - held for trading                                | -                                      | -              | 44 409                                          | 36 484         | 405                                            | -            | 44 814           | 36 484           |
| Derivatives                                                        | -                                      | -              | 44 409                                          | 36 484         | 405                                            | -            | 44 814           | 36 484           |
| Financial assets - designated at fair value through profit or loss | -                                      | -              | -                                               | -              | 6 118                                          | 5 602        | 6 118            | 5 602            |
| Financial assets - available for sale                              | 866 076                                | 835 377        | 170 731                                         | 182 185        | 25 836                                         | 3 058        | 1 062 643        | 1 020 620        |
| Derivatives hedge accounting                                       | -                                      | -              | 7 705                                           | 6 761          | -                                              | -            | 7 705            | 6 761            |
| <b>Total Assets</b>                                                | <b>866 076</b>                         | <b>835 377</b> | <b>222 845</b>                                  | <b>225 430</b> | <b>32 359</b>                                  | <b>8 660</b> | <b>1 121 280</b> | <b>1 069 467</b> |
| <b>LIABILITIES</b>                                                 |                                        |                |                                                 |                |                                                |              |                  |                  |
| Financial assets - held for trading                                | -                                      | -              | 42 524                                          | 33 344         | 288                                            | -            | 42 812           | 33 344           |
| Derivatives                                                        | -                                      | -              | 42 524                                          | 33 344         | 288                                            | -            | 42 812           | 33 344           |
| Derivatives hedge accounting                                       | -                                      | -              | 52 389                                          | 42 100         | -                                              | -            | 52 389           | 42 100           |
| <b>Total Liabilities</b>                                           | <b>-</b>                               | <b>-</b>       | <b>94 913</b>                                   | <b>75 444</b>  | <b>288</b>                                     | <b>-</b>     | <b>95 201</b>    | <b>75 444</b>    |

Allocation of positions to the levels of fair value hierarchy and any changes between these levels are reflected at the end of the reporting period.

## Changes in volumes of Level 1 and Level 2

There were no significant transfers between Level 1 and Level 2 of financial instruments measured at fair value on the balance sheet.

## Movements in Level 3

The development of fair value of the securities for which valuation models are based on non-observable inputs was as follows:

| EUR ths                                                                    | 2016          | Gains /<br>Losses in<br>profit or loss | Gains / Lo-<br>sses in other<br>comprehensi-<br>ve income | Purchase | Sales / Sett-<br>lements | Transfer into<br>Level 3 | Transfer out<br>of level 3 | 2017         |
|----------------------------------------------------------------------------|---------------|----------------------------------------|-----------------------------------------------------------|----------|--------------------------|--------------------------|----------------------------|--------------|
| <b>ASSETS</b>                                                              |               |                                        |                                                           |          |                          |                          |                            |              |
| Financial assets - held for trading                                        | 405           | -                                      | -                                                         | -        | -                        | -                        | (405)                      | -            |
| Derivatives                                                                | 405           | -                                      | -                                                         | -        | -                        | -                        | (405)                      | -            |
| Financial assets - designa-<br>ted at fair value through<br>profit or loss | 6 118         | (517)                                  | -                                                         | -        | -                        | -                        | -                          | 5 602        |
| Financial assets - available<br>for sale                                   | 25 836        | -                                      | 2 380                                                     | -        | (298)                    | 27 394                   | (52 254)                   | 3 058        |
| <b>Total</b>                                                               | <b>32 359</b> | <b>(517)</b>                           | <b>2 380</b>                                              | <b>-</b> | <b>(298)</b>             | <b>27 394</b>            | <b>(52 659)</b>            | <b>8 660</b> |
| <b>LIABILITIES</b>                                                         |               |                                        |                                                           |          |                          |                          |                            |              |
| Financial liabilities - held for trading                                   | 288           | -                                      | -                                                         | -        | -                        | -                        | (288)                      | -            |
| Derivatives                                                                | 288           | -                                      | -                                                         | -        | -                        | -                        | (288)                      | -            |
| <b>Total</b>                                                               | <b>288</b>    | <b>-</b>                               | <b>-</b>                                                  | <b>-</b> | <b>-</b>                 | <b>-</b>                 | <b>(288)</b>               | <b>-</b>     |

| EUR ths                                                                    | 2015          | Gains /<br>Losses in<br>profit or loss | Gains / Lo-<br>sses in other<br>comprehensi-<br>ve income | Purchase     | Sales / Sett-<br>lements | Transfer into<br>Level 3 | Transfer out<br>of level 3 | 2016          |
|----------------------------------------------------------------------------|---------------|----------------------------------------|-----------------------------------------------------------|--------------|--------------------------|--------------------------|----------------------------|---------------|
| <b>ASSETS</b>                                                              |               |                                        |                                                           |              |                          |                          |                            |               |
| Financial assets - held for trading                                        | 902           | (2 135)                                | -                                                         | -            | (902)                    | 31 295                   | (28 755)                   | 405           |
| Derivatives                                                                | 902           | (2 135)                                | -                                                         | -            | (902)                    | 31 295                   | (28 755)                   | 405           |
| Financial assets - designa-<br>ted at fair value through<br>profit or loss | 11 027        | (828)                                  | -                                                         | -            | (4 081)                  | -                        | -                          | 6 118         |
| Financial assets - available<br>for sale                                   | 37 476        | 738                                    | 2 370                                                     | 5 740        | (33 363)                 | 34 700                   | (21 824)                   | 25 836        |
| <b>Total</b>                                                               | <b>49 405</b> | <b>(2 225)</b>                         | <b>2 370</b>                                              | <b>5 740</b> | <b>(38 346)</b>          | <b>65 995</b>            | <b>(50 579)</b>            | <b>32 359</b> |
| <b>LIABILITIES</b>                                                         |               |                                        |                                                           |              |                          |                          |                            |               |
| Financial liabilities - held for trading                                   | -             | -                                      | -                                                         | -            | -                        | 288                      | -                          | 288           |
| Derivatives                                                                | -             | -                                      | -                                                         | -            | -                        | 288                      | -                          | 288           |
| <b>Total</b>                                                               | <b>-</b>      | <b>-</b>                               | <b>-</b>                                                  | <b>-</b>     | <b>-</b>                 | <b>288</b>               | <b>-</b>                   | <b>288</b>    |



Gains or losses on Level 3 financial instruments held at the end of the reporting period, which are included in the income statement were as follows:

| EUR ths.                                                           | 2016           | 2017         |
|--------------------------------------------------------------------|----------------|--------------|
| <b>ASSETS</b>                                                      |                |              |
| Financial assets - held for trading                                | 405            | -            |
| Financial assets - designated at fair value through profit or loss | (1 377)        | (517)        |
| <b>LIABILITIES</b>                                                 |                |              |
| Financial liabilities - held for trading                           | (288)          | -            |
| <b>Total</b>                                                       | <b>(1 260)</b> | <b>(517)</b> |

The amount of financial instruments in Level 3 consists solely of a few positions in illiquid securities.

## Fair value of financial instruments disclosed in the notes

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2017:

| EUR ths.                                            | Carrying amount | Fair value | Quoted market prices in active markets<br>Level 1 | Marked to model based on observable market data<br>Level 2 | Marked to model based on non-observable inputs<br>Level 3 |
|-----------------------------------------------------|-----------------|------------|---------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|
| <b>ASSETS</b>                                       |                 |            |                                                   |                                                            |                                                           |
| Cash and cash balances                              | 424 229         | 424 229    | -                                                 | -                                                          | -                                                         |
| Financial assets - held to maturity                 | 2 644 402       | 3 064 786  | 2 960 691                                         | 85 443                                                     | 18 652                                                    |
| Loans and receivables to credit institutions        | 177 616         | 181 674    | -                                                 | -                                                          | 181 674                                                   |
| Loans and receivables to customers                  | 11 719 733      | 12 082 072 | -                                                 | -                                                          | 12 082 072                                                |
| thereof: lending for house purchase                 | 6 841 004       | 7 052 507  | -                                                 | -                                                          | 7 052 507                                                 |
| thereof: credit for consumption                     | 1 580 374       | 1 629 235  | -                                                 | -                                                          | 1 629 235                                                 |
| thereof: corporate loans and others                 | 3 298 355       | 3 400 330  | -                                                 | -                                                          | 3 400 330                                                 |
| <b>LIABILITIES</b>                                  |                 |            |                                                   |                                                            |                                                           |
| Financial liabilities - measured at amortised costs | 14 624 693      | 14 641 939 | -                                                 | 1 592 231                                                  | 12 958 687                                                |
| Deposits from banks                                 | 488 564         | 499 905    | -                                                 | -                                                          | 499 905                                                   |
| Deposits from customers                             | 12 477 892      | 12 458 782 | -                                                 | -                                                          | 12 458 782                                                |
| Debt securities issued                              | 1 567 216       | 1 592 231  | -                                                 | 1 592 231                                                  | -                                                         |
| Other financial liabilities                         | 91 021          | 91 021     | -                                                 | -                                                          | 91 021                                                    |

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2016:

| EUR ths.                                            | Carrying amount | Fair value | Quoted market prices in active marketes<br>Level 1 | Marked to model based on observable market data<br>Level 2 | Marked to model based on non-observable inputs<br>Level 3 |
|-----------------------------------------------------|-----------------|------------|----------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|
| <b>ASSETS</b>                                       |                 |            |                                                    |                                                            |                                                           |
| Cash and cash balances                              | 396 973         | 396 973    | -                                                  | -                                                          | -                                                         |
| Financial assets - held to maturity                 | 2 640 662       | 3 117 560  | 3 025 219                                          | 58 830                                                     | 33 510                                                    |
| Loans and receivables to credit institutions        | 89 946          | 90 293     | -                                                  | -                                                          | 90 293                                                    |
| Loans and receivables to customers                  | 10 250 469      | 10 614 738 | -                                                  | -                                                          | 10 614 738                                                |
| thereof: lending for house purchase                 | 6 000 637       | 6 213 880  | -                                                  | -                                                          | 6 213 880                                                 |
| thereof: credit for consumption                     | 1 441 492       | 1 492 718  | -                                                  | -                                                          | 1 492 718                                                 |
| thereof: corporate loans and others                 | 2 808 340       | 2 908 139  | -                                                  | -                                                          | 2 908 139                                                 |
| <b>LIABILITIES</b>                                  |                 |            |                                                    |                                                            |                                                           |
| Financial liabilities - measured at amortised costs | 12 979 909      | 12 978 080 | -                                                  | 373 849                                                    | 12 604 231                                                |
| Deposits from banks                                 | 278 193         | 280 776    | -                                                  | -                                                          | 280 776                                                   |
| Deposits from customers                             | 11 384 309      | 11 339 577 | -                                                  | -                                                          | 11 339 577                                                |
| Debt securities issued                              | 1 317 407       | 1 357 727  | -                                                  | 373 849                                                    | 983 878                                                   |

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of securities issued and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, where available. Otherwise it is estimated by taking into consideration the actual interest rate environment and they are transferred to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads and these are allocated to Level 3.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The difference between the calculated market value and the notional amount

of the hypothetical loan equivalents represents the fair value of these contingent liabilities

### Fair value of non-financial assets

The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification.

#### Property, equipment and other assets

Property, equipment and other assets are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

Fair values of non-financial assets owned by the Group are based on valuation reports relying essentially on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets). Such measurements are disclosed as Level 2 of the fair value hierarchy. If fair values of non-financial assets result from valuation models using expected future rental income method they are presented in Level 3 of the fair value hierarchy.

For non-financial assets owned by the Group the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenants and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

### Investment property

Investment property is measured at fair value on recurring basis.

As at 31 December 2017 the estimated fair value of investment property was in amount of 2,0 mil. Eur (2016: 2,3 mil. Eur). The Group uses its own model for determining the fair value of investment property, which is based on discounting future rental

income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location. Such measurements are presented in Level 3 of the fair value hierarchy.

## 37) Current and non-current assets and liabilities

The classification of assets, liabilities and equity to current (due within 1 year) and non-current (due over 1 year) based on their expected maturity is shown in the following table:

| EUR ths.                                                | 2016             |                   | 2017             |                   |
|---------------------------------------------------------|------------------|-------------------|------------------|-------------------|
|                                                         | < 1 year         | > 1 year          | < 1 year         | > 1 year          |
| <b>ASSETS</b>                                           |                  |                   |                  |                   |
| Cash and cash balances                                  | 394 845          | 2 128             | 424 221          | 8                 |
| Financial assets - held for trading                     | 6 753            | 38 061            | 2 046            | 34 438            |
| Derivatives                                             | 6 753            | 38 061            | 2 046            | 34 438            |
| Financial assets - at fair value through profit or loss | -                | 6 118             | -                | 5 602             |
| Financial assets - available for sale                   | 34 976           | 1 028 345         | 26 953           | 993 667           |
| Financial assets - held to maturity                     | 445 846          | 2 194 816         | 26 464           | 2 617 937         |
| Loans and receivables to credit institutions            | 89 946           | -                 | 177 616          | -                 |
| Loans and receivables to customers                      | 1 344 538        | 8 905 931         | 1 608 924        | 10 110 809        |
| Derivatives - hedge accounting                          | -                | 7 705             | -                | 6 761             |
| Property and equipment                                  | -                | 162 150           | -                | 149 564           |
| Investment properties                                   | -                | 2 388             | -                | 2 031             |
| Intangible assets                                       | -                | 71 955            | -                | 55 457            |
| Investments in associates                               | -                | 30 467            | -                | 31 123            |
| Current tax assets                                      | 8                | -                 | 10 634           | -                 |
| Deferred tax assets                                     | -                | 34 030            | -                | 33 711            |
| Other assets                                            | 24 368           | -                 | 25 145           | -                 |
| <b>Total Assets</b>                                     | <b>2 341 280</b> | <b>12 484 094</b> | <b>2 302 003</b> | <b>14 041 108</b> |
| <b>LIABILITIES</b>                                      |                  |                   |                  |                   |
| Financial liabilities - held for trading                | 6 889            | 35 923            | 2 266            | 31 077            |
| Derivatives                                             | 6 889            | 35 923            | 2 266            | 31 077            |
| Financial liabilities measured at amortised cost        | 5 391 286        | 7 588 624         | 5 781 488        | 8 843 205         |
| Deposits from banks                                     | 116 163          | 162 030           | 287 434          | 201 130           |
| Deposits from customers                                 | 5 113 284        | 6 271 025         | 5 120 729        | 7 357 163         |
| Debt securities issued                                  | 161 839          | 1 155 568         | 282 304          | 1 284 912         |
| Other financial liabilities                             | -                | -                 | 91 021           | -                 |
| Derivatives - hedge accounting                          | -                | 52 389            | -                | 42 100            |
| Long term provisions                                    | -                | 10 932            | -                | 9 976             |
| Provisions                                              | -                | 11 494            | -                | 15 091            |
| Current tax liabilities                                 | 4 013            | -                 | 1                | -                 |
| Deferred tax liabilities                                | -                | 106               | -                | -                 |
| Other liabilities                                       | 161 615          | 1                 | 82 235           | 1                 |
| <b>Total Liabilities</b>                                | <b>5 563 803</b> | <b>7 699 469</b>  | <b>5 865 991</b> | <b>8 941 450</b>  |

The following table details the Group's non-derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

| <b>2017</b><br><b>EUR ths.</b>                   | <b>On demand<br/>and less than<br/>1M</b> | <b>1 to 3M</b> | <b>3M to 1Y</b>  | <b>1 to 5Y</b>   | <b>Over 5Y</b> | <b>Total</b>      |
|--------------------------------------------------|-------------------------------------------|----------------|------------------|------------------|----------------|-------------------|
| Financial liabilities measured at amortised cost |                                           |                |                  |                  |                |                   |
| Deposits from banks                              | 180 884                                   | 80 072         | 26 426           | 87 928           | 111 130        | 486 441           |
| Deposits from customers                          | 10 329 218                                | 579 226        | 1 451 867        | 119 174          | 30             | 12 479 515        |
| Debt securities issued                           | 160                                       | 169 001        | 118 129          | 1 142 165        | 181 982        | 1 611 437         |
| Other financial liabilities                      | 91 021                                    | -              | -                | -                | -              | 91 021            |
| Guarantees provided                              | 3 085                                     | 31 727         | 111 603          | 166 662          | 6 045          | 319 122           |
| Guarantees from letter of credit                 | 357                                       | 1 086          | 3 351            | 5 824            | -              | 10 618            |
| Loan commitments and undrawn loans               | 1 289 425                                 | -              | -                | -                | -              | 1 289 425         |
| <b>Total</b>                                     | <b>11 894 150</b>                         | <b>861 112</b> | <b>1 711 376</b> | <b>1 521 753</b> | <b>299 187</b> | <b>16 287 579</b> |

| <b>2016</b><br><b>EUR ths.</b>                   | <b>On demand<br/>and less than<br/>1M</b> | <b>1 to 3M</b> | <b>3M to 1Y</b>  | <b>1 to 5Y</b>   | <b>Over 5Y</b> | <b>Total</b>      |
|--------------------------------------------------|-------------------------------------------|----------------|------------------|------------------|----------------|-------------------|
| Financial liabilities measured at amortised cost | 11 027                                    | 84 778         | 20 414           | 80 078           | 84 442         | 280 739           |
| Deposits from banks                              | 8 954 535                                 | 711 914        | 1 481 666        | 245 157          | -              | 11 393 272        |
| Deposits from customers                          | 9 470                                     | 5 221          | 152 481          | 1 007 501        | 199 009        | 1 373 682         |
| Debt securities issued                           | -                                         | -              | -                | -                | -              | -                 |
| Other financial liabilities                      | 2 051                                     | 37 518         | 63 466           | 176 908          | 6 358          | 286 301           |
| Guarantees provided                              | 515                                       | 3 007          | 3 898            | 142              | -              | 7 562             |
| Guarantees from letter of credit                 | 1 109 595                                 | -              | -                | -                | -              | 1 109 595         |
| Loan commitments and undrawn loans               | 10 087 194                                | 842 438        | 1 721 925        | 1 509 786        | 289 809        | 14 451 151        |
| <b>Total</b>                                     | <b>11 894 150</b>                         | <b>861 112</b> | <b>1 711 376</b> | <b>1 521 753</b> | <b>299 187</b> | <b>16 287 579</b> |

## 38) Own funds and capital requirements

### Regulatory scope of application

In the following Slovenská sporiteľňa, a.s. (SLSP) fulfills the disclosure requirements according to the Capital Requirements Regulation (CRR), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

### Regulatory requirements

Since 1 January 2014, the Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the Capital Requirements Regulation (CRR) and the Capital Requirement Directive (CRD IV) that were enacted in national law, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

The Group fulfilled regulatory capital requirements in both years 2017 and 2016 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

### Accounting principles

The financial and regulatory figures published by the Group are based on IFRS regulatory capital components. Eligible capital components derive from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation for items where the regulatory treatment is not equal to the accounting requirements.

The unified reporting date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

### Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements: Art. 436 (b) CRR

### Scope of consolidation

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR.

### Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II, chapter 2 Section 3 of the CRR.

The definition of entities to be consolidated for regulatory purposes are mainly defined in Article 4 (1) (3) and (16) to (27) CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

### Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR:

- Based on the CRR, mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the financial scope of consolidation.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 mil. or 1% of the total amount and off-balance sheet items of the parent company. SLSP Group makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts, SLSP Group does not make use of Article 19 (2) CRR and follows the requirements for the approval process as defined within this article. SLSP Group does not apply Article 19 (2) CRR for credit institutions and investment firms.

### Consolidation methods

### Main differences between the financial consolidation method and the regulatory consolidation method, considering regulatory adjustments

- For the calculation of consolidated own funds, SLSP Group generally applies the same consolidation methods as used for accounting purposes. The difference applies only to Article 18 (4) CRR, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. SLSP Group does not apply proportional consolidation for any entity.

### Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the balance sheet according to IFRS. The amounts that are used as the basis for the calculation of own funds are recalculated based on the definition of the regulatory scope of consolidation pursuant to the CRR. The difference between the IFRS balance sheet and the regulatory balance sheet is the difference in the scope of consolidation. Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore

determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. SLSP Group did not make use of Article 84 CRR.

**Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity Tier 1 of the Group**

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art. 56 (c) and 59 CRR and Tier 2 items according to Art. 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48

(2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability arising from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% risk weight (RW) according to Article 48 (4) CRR.

At the reporting date, the Group did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of the Group and therefore are considered in RWAs.



The following table shows threshold calculations according to Articles 46 and 48 CRR:

| EUR ths.                                                                                                                                                                                                 | 2016           | 2017           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Non significant investments in financial sector entities</b>                                                                                                                                          |                |                |
| Threshold (10% of CET1)                                                                                                                                                                                  | 106 939        | 112 715        |
| Holdings in CET1                                                                                                                                                                                         | 678            | 3 059          |
| Holdings in AT1                                                                                                                                                                                          | -              | -              |
| Holdings in T2                                                                                                                                                                                           | -              | -              |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>106 261</b> | <b>109 656</b> |
| <b>Significant investments in financial sector entities</b>                                                                                                                                              |                |                |
| Threshold (10% of CET1)                                                                                                                                                                                  | 106 939        | 112 715        |
| Holdings in CET1                                                                                                                                                                                         | 30 421         | 31 059         |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>76 519</b>  | <b>81 655</b>  |
| <b>Deferred tax assets</b>                                                                                                                                                                               |                |                |
| Threshold (10% of CET1)                                                                                                                                                                                  | 106 939        | 112 715        |
| Deferred tax assets that are dependent on future profitability and arise from temporary differences                                                                                                      | 32 260         | 32 901         |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>74 679</b>  | <b>79 814</b>  |
| <b>Combined threshold for deferred tax assets and significant investments</b>                                                                                                                            |                |                |
| Threshold (17.65% of CET1)                                                                                                                                                                               | 188 748        | 198 941        |
| Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment | 62 681         | 63 960         |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>126 067</b> | <b>134 981</b> |

## Presentation of the scope of consolidation

The following table shows list of subsidiaries and associates, accounting treatment within the scope and classification according to CRR:

| Entity Name                                     | Accounting treatment IFRS | Accounting treatment CRR scope               | Classification                 |
|-------------------------------------------------|---------------------------|----------------------------------------------|--------------------------------|
| LANED a.s.                                      | fully consolidated        | fully consolidated                           | Ancillary service under-taking |
| Realitná spoločnosť Slovenskej sporiteľne, a.s. | fully consolidated        | fully consolidated                           | Ancillary service under-taking |
| Služby SLSP, spol. s r. o.                      | fully consolidated        | fully consolidated                           | Ancillary service under-taking |
| Prva stavebná sporiteľna, a.s.                  | at equity method          | at equity method                             | Credit institutions            |
| Slovak Banking Credit Bureau, s.r.o.            | at equity method          | at equity method                             | Ancillary service under-taking |
| Holding Card Service, spol. s r. o.             | at equity method          | at equity method                             | Financial institution          |
| Procurement Services SK, s.r.o.                 | fully consolidated        | not consolidated according to article 19 CRR | Ancillary service under-taking |

The following tables shows changes within the fully consolidated entities within the regulatory scope of consolidation:

|                                                                                           | 2016     | New      | Deconsoli-<br>dated | Merged   | Reclassifica-<br>tion | 2017     |
|-------------------------------------------------------------------------------------------|----------|----------|---------------------|----------|-----------------------|----------|
| Credit institutions                                                                       | -        | -        | -                   | -        | -                     | -        |
| Financial institutions, financial holding companies and mixed financial holding companies | -        | -        | -                   | -        | -                     | -        |
| Ancillary service undertakings, investment firms and asset management companies           | 3        | -        | -                   | -        | -                     | 3        |
| <b>Total</b>                                                                              | <b>3</b> | <b>-</b> | <b>-</b>            | <b>-</b> | <b>-</b>              | <b>3</b> |

|                                                                                           | 2015     | New      | Deconsoli-<br>dated | Merged   | Reclassifica-<br>tion | 2016     |
|-------------------------------------------------------------------------------------------|----------|----------|---------------------|----------|-----------------------|----------|
| Credit institutions                                                                       | -        | -        | -                   | -        | -                     | -        |
| Financial institutions, financial holding companies and mixed financial holding companies | 1        | -        | -                   | 1        | -                     | 0        |
| Ancillary service undertakings, investment firms and asset management companies           | 4        | -        | -                   | 1        | -                     | 3        |
| <b>Total</b>                                                                              | <b>5</b> | <b>-</b> | <b>-</b>            | <b>2</b> | <b>-</b>              | <b>3</b> |

As of 31 December 2017 the number of companies consolidated pursuant to IFRS was 7. As of 31 December 2017 the number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR) was 6.

Three entities are part of the regulatory scope of consolidation consolidated at equity method which is equal to their

treatment in the IFRS scope of consolidation. These entities are Prvá stavebná sporiteľňa, a.s., Slovak Banking Credit Bureau, s.r.o., Holding Card Service, spol. s r. o.

There were no other changes within the fully consolidated entities within the regulatory scope of consolidation in the year 2017.

## Own funds

Own funds of an institution according to CRR consist of the sum of the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital of the institution. To assess capital adequacy, each Tier of capital after applying all prudential filters and deductions is expressed as a percentage of the total risk exposure amount.

The following table shows the structure of own funds according to implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (the positions not relevant for the Group were excluded):

| in EUR ths.                                                                                                                         | Article pursuant to CRR                  | 2016             | 2017             |
|-------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------|------------------|
| <b>Common equity tier 1 capital (CET1)</b>                                                                                          |                                          |                  |                  |
| Capital instruments eligible as CET1                                                                                                | 26 (1) (a) (b), 27 to 30, 36 (1) (f), 42 | 212 000          | 212 000          |
| Own CET1 instruments                                                                                                                | 36 (1) (f), 42                           | -                | -                |
| Retained earnings                                                                                                                   | 26 (1) (c), 26 (2)                       | 900 151          | 910 177          |
| Interim profit                                                                                                                      | 26 (2)                                   | -                | -                |
| Accumulated other comprehensive income                                                                                              | 4 (1) (100), 26 (1) (d)                  | 82 836           | 94 428           |
| Minority interest recognised in CET1                                                                                                | 4 (1) (120) 84                           | -                | -                |
| Transitional adjustments due to additional minority interests                                                                       | 479, 480                                 | -                | -                |
| Prudential filter: cash flow hedge reserve                                                                                          | 33 (1) (a)                               | -                | -                |
| Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities                         | 33 (1) (b)                               | -                | -                |
| Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities     | 33 (1) (c), 33 (2)                       | 752              | 241              |
| Value adjustments due to the requirements for prudent valuation                                                                     | 34, 105                                  | (4 428)          | (3 394)          |
| Goodwill                                                                                                                            | 4 (1) (113), 36 (1) (b), 37              | -                | -                |
| Other intangible assets                                                                                                             | 4 (1) (115), 36 (1) (b), 37 (a)          | (71 955)         | (55 457)         |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | 36 (1) (c), 38                           | (1 726)          | (777)            |
| IRB shortfall of credit risk adjustments to expected losses                                                                         | 36 (1) (d), 40, 158, 159                 | -                | -                |
| Development of unaudited risk provisions during the year (EU No 183/2014)                                                           |                                          | (48 235)         | (30 073)         |
| Excess of deduction from AT1 items over AT1                                                                                         | 36 (1) (j)                               | -                | -                |
| <b>Common equity tier 1 capital (CET1)</b>                                                                                          | <b>50</b>                                | <b>1 069 395</b> | <b>1 127 145</b> |
| <b>Additional tier 1 capital (AT1)</b>                                                                                              |                                          |                  |                  |
| Capital instruments eligible as AT1                                                                                                 | 51 (a), 52 to 54, 56 (a), 57             | 150 000          | 150 000          |
| Own AT1 instruments                                                                                                                 | 52 (1) (b), 56 (a), 57                   | -                | -                |
| Instruments issued by subsidiaries that are given recognition in AT1                                                                | 85, 86                                   | -                | -                |
| Transitional adjustments due to grandfathered AT1 instruments                                                                       | 483 (4) (5), 484 to 487, 489, 491        | -                | -                |
| AT1 instruments of financial sector entities where the institution has a significant investment                                     | 4 (1) (27), 56 (d), 59, 79               | -                | -                |
| Excess of deduction from T2 items over T2                                                                                           | 36 (1) (j)                               | -                | -                |
| <b>Additional tier 1 capital (AT1)</b>                                                                                              | <b>61</b>                                | <b>150 000</b>   | <b>150 000</b>   |
| <b>Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)</b>                                     | <b>25</b>                                | <b>1 219 395</b> | <b>1 277 145</b> |

| in EUR ths.                                                                                        | Article pursuant to CRR              | 2016             | 2017             |
|----------------------------------------------------------------------------------------------------|--------------------------------------|------------------|------------------|
| <b>Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)</b>    |                                      |                  |                  |
| <b>Tier 2 capital (T2)</b>                                                                         | <b>25</b>                            | <b>1 219 395</b> | <b>1 277 145</b> |
| Capital instruments and subordinated loans eligible as T2                                          | 62 (a), 63 to 65, 66 (a), 67         | 48 065           | 37 877           |
| Own T2 instruments                                                                                 | 63 (b) (i), 66 (a), 67               | -                | -                |
| Instruments issued by subsidiaries recognised in T2                                                | 87, 88                               | -                | -                |
| Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries | 480                                  | -                | -                |
| Transitional adjustments due to grandfathered T2 instruments and subordinated loans                | 483 (6) (7), 484, 486, 488, 490, 491 | -                | -                |
| IRB excess of provisions over expected losses eligible                                             | 62 (d)                               | 27 369           | 32 647           |
| Standardised approach general credit risk adjustments                                              | 62 (c)                               | -                | -                |
| Other transitional adjustments to T2                                                               | 476, 477, 478, 481                   | -                | -                |
| T2 instruments of financial sector entities where the institution has a significant investment     | 4 (1) (27), 66 (d), 68, 69, 79       | -                | -                |
| <b>Tier 2 capital (T2)</b>                                                                         | <b>71</b>                            | <b>75 433</b>    | <b>70 523</b>    |
| <b>Total own funds</b>                                                                             | <b>4 (1) (118) and 72</b>            | <b>1 294 828</b> | <b>1 347 669</b> |
| <b>Capital requirement</b>                                                                         | <b>92 (3), 95, 96, 98</b>            | <b>481 587</b>   | <b>575 396</b>   |
| <b>CET1 capital ratio</b>                                                                          | <b>92 (2) (a)</b>                    | <b>17,76%</b>    | <b>15,67%</b>    |
| <b>Tier 1 capital ratio</b>                                                                        | <b>92 (2) (b)</b>                    | <b>20,26%</b>    | <b>17,76%</b>    |
| <b>Total capital ratio</b>                                                                         | <b>92 (2) (c)</b>                    | <b>21,51%</b>    | <b>18,74%</b>    |

Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

| in EUR ths.                                      | Article pursuant to CRR                          | 2016             |                     | 2017             |                     |
|--------------------------------------------------|--------------------------------------------------|------------------|---------------------|------------------|---------------------|
|                                                  |                                                  | Total risk       | Capital requirement | Total risk       | Capital requirement |
| <b>Total Risk Exposure Amount</b>                | <b>92 (3), 95, 96, 98</b>                        | <b>6 019 843</b> | <b>481 587</b>      | <b>7 192 445</b> | <b>575 396</b>      |
| Risk weighted assets (credit risk)               | 92 (3) (a) (f)                                   | 4 858 570        | 388 686             | 5 761 262        | 460 901             |
| Standardised approach                            |                                                  | 297 140          | 23 771              | 320 163          | 25 613              |
| IRB approach                                     |                                                  | 4 561 430        | 364 914             | 5 441 099        | 435 288             |
| Settlement Risk                                  | 92 (3) (c) (ii), 92 (4) (b)                      | -                | -                   | -                | -                   |
| Trading book, foreign FX risk and commodity risk | 92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b) | 21 868           | 1 749               | 4 031            | 322                 |
| Operational Risk                                 | 92 (3) (e), 92 (4) (b)                           | 1 097 778        | 87 822              | 1 397 574        | 111 806             |
| Exposure for CVA                                 | 92 (3) (d)                                       | 41 627           | 3 330               | 29 578           | 2 366               |
| Other exposure amounts incl. Basel 1 floor       | 3, 458, 459, 500                                 | -                | -                   | -                | -                   |

## Balance sheet reconciliation

Disclosure requirements: Art. 437 (1) (a) CRR

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation as at 31 December 2017:

| in EUR ths.                                             | IFRS              | Effects - scope of consolidation | CRR               |
|---------------------------------------------------------|-------------------|----------------------------------|-------------------|
| <b>Assets</b>                                           |                   |                                  |                   |
| Cash and cash balances                                  | 424 229           | (0)                              | 424 229           |
| Financial assets - held for trading                     | 36 484            | 0                                | 36 484            |
| Derivatives                                             | 36 484            | 0                                | 36 484            |
| Financial assets - at fair value through profit or loss | 5 602             | 0                                | 5 602             |
| Financial assets - available for sale                   | 1 020 620         | 0                                | 1 020 620         |
| Financial assets - held to maturity                     | 2 644 402         | 0                                | 2 644 402         |
| Loans and receivables to credit institutions            | 177 616           | 0                                | 177 616           |
| Loans and receivables to customers                      | 11 719 733        | 0                                | 11 719 733        |
| Derivatives - hedge accounting                          | 6 761             | 0                                | 6 761             |
| Property and equipment                                  | 149 566           | 0                                | 149 566           |
| Investment properties                                   | 2 031             | 0                                | 2 031             |
| Intangible assets                                       | 55 457            | 0                                | 55 457            |
| Investments in associates and joint ventures            | 31 123            | -2 406                           | 28 717            |
| Current tax assets                                      | 10 634            | -11                              | 10 623            |
| Deferred tax assets                                     | 33 711            | -33                              | 33 677            |
| Other assets                                            | 25 144            | -209                             | 24 935            |
| <b>Total assets</b>                                     | <b>16 343 112</b> | <b>-2 659</b>                    | <b>16 340 452</b> |
| <b>Liabilities and equity</b>                           |                   |                                  |                   |
| Financial liabilities - held for trading                | 33 344            | 0                                | 33 344            |
| Derivatives                                             | 33 344            | 0                                | 33 344            |
| Financial liabilities measured at amortised costs       | 14 624 693        | 124                              | 14 624 817        |
| Deposits from banks                                     | 488 564           | 0                                | 488 564           |
| Deposits from customers                                 | 12 477 892        | 124                              | 12 478 016        |
| Debt securities issued                                  | 1 567 216         | 0                                | 1 567 216         |
| Other financial liabilities                             | 91 021            | 0                                | 91 021            |
| Derivatives - hedge accounting                          | 42 100            | 0                                | 42 100            |
| Provisions                                              | 25 067            | 0                                | 25 067            |
| Current tax liabilities                                 | 1                 | 0                                | 1                 |
| Deferred tax liabilities                                | 0                 | 0                                | 0                 |
| <b>Other liabilities</b>                                | <b>82 236</b>     | <b>-316</b>                      | <b>81 921</b>     |
| Total equity                                            | 1 535 671         | -2 467                           | 1 533 203         |
| Equity - attributable to non-controlling interests      | 31                | -31                              | 0                 |
| Equity - attributable to owners of the parent           | 1 535 640         | -2 437                           | 1 533 203         |
| <b>Total liabilities and equity</b>                     | <b>16 343 112</b> | <b>-2 659</b>                    | <b>16 340 452</b> |

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation as at 31 December 2016:

| in EUR ths.                                             | IFRS              | Effects - scope of consolidation | CRR               |
|---------------------------------------------------------|-------------------|----------------------------------|-------------------|
| <b>Assets</b>                                           |                   |                                  |                   |
| Cash and cash balances                                  | 396 973           | 0                                | 396 973           |
| Financial assets - held for trading                     | 44 814            | 0                                | 44 814            |
| Derivatives                                             | 44 814            | 0                                | 44 814            |
| Financial assets - at fair value through profit or loss | 6 118             | 0                                | 6 118             |
| Financial assets - available for sale                   | 1 063 321         | 0                                | 1 063 321         |
| Financial assets - held to maturity                     | 2 640 662         | 0                                | 2 640 662         |
| Loans and receivables to credit institutions            | 89 946            | 0                                | 89 946            |
| Loans and receivables to customers                      | 10 250 469        | 0                                | 10 250 469        |
| Derivatives - hedge accounting                          | 7 705             | 0                                | 7 705             |
| Property and equipment                                  | 162 150           | 0                                | 162 150           |
| Investment properties                                   | 2 388             | 0                                | 2 388             |
| Intangible assets                                       | 71 955            | 0                                | 71 955            |
| Investments in associates and joint ventures            | 30 467            | -2 406                           | 28 061            |
| Current tax assets                                      | 8                 | -8                               | 0                 |
| Deferred tax assets                                     | 34 030            | -43                              | 33 986            |
| Other assets                                            | 24 368            | -105                             | 24 263            |
| <b>Total assets</b>                                     | <b>14 825 374</b> | <b>-2 562</b>                    | <b>14 822 812</b> |
| <b>Liabilities and equity</b>                           |                   |                                  |                   |
| Financial liabilities - held for trading                | 42 812            | 0                                | 42 812            |
| Derivatives                                             | 42 812            | 0                                | 42 812            |
| Financial liabilities measured at amortised costs       | 12 979 909        | 250                              | 12 980 159        |
| Deposits from banks                                     | 278 193           | 0                                | 278 193           |
| Deposits from customers                                 | 11 384 309        | 250                              | 11 384 559        |
| Debt securities issued                                  | 1 317 407         | 0                                | 1 317 407         |
| Derivatives - hedge accounting                          | 52 389            | 0                                | 52 389            |
| Provisions                                              | 22 426            | 0                                | 22 426            |
| Current tax liabilities                                 | 4 013             | 0                                | 4 013             |
| Deferred tax liabilities                                | 106               | 0                                | 106               |
| Other liabilities                                       | 161 613           | -333                             | 161 280           |
| <b>Total equity</b>                                     | <b>1 562 104</b>  | <b>-2 479</b>                    | <b>1 559 626</b>  |
| Equity - attributable to non-controlling interests      | 37                | -37                              | 0                 |
| Equity - attributable to owners of the parent           | 1 562 068         | -2 442                           | 1 559 626         |
| <b>Total liabilities and equity</b>                     | <b>14 825 374</b> | <b>-2 562</b>                    | <b>14 822 812</b> |

Further details regarding entities within the different scopes of consolidation are disclosed in table "Presentation scope of consolidation".



## Total equity

The following table shows equity items according to IFRS and CRR scope of consolidation and how they are affecting regulatory own funds.

Total equity as at 31 December 2017:

| EUR ths.                                                       | Own funds disclosure table - reference | IFRS      | Effects - scope of consolidation | CRR       | Regulatory adjustments | Own funds |
|----------------------------------------------------------------|----------------------------------------|-----------|----------------------------------|-----------|------------------------|-----------|
| Subscribed capital                                             |                                        | 212 000   | -                                | 212 000   | -                      | 212 000   |
| Capital reserve                                                |                                        | 118 899   | 0                                | 118 899   | (0)                    | 118 899   |
| AT1 capital instruments and the related share premium accounts | a                                      | 150 000   | -                                | 150 000   | -                      | 150 000   |
| Retained earnings                                              | b                                      | 796 461   | (2 470)                          | 793 991   | (2 713)                | 791 278   |
| Other comprehensive income (OCI)                               | c                                      | 94 399    | 29                               | 94 428    | -                      | 94 428    |
| Cash flow hedge reserve                                        | g                                      | -         | -                                | -         | -                      | -         |
| Available for sale reserve                                     |                                        | 120 072   | (0)                              | 120 072   | -                      | 120 072   |
| unrealized gains according to Art. 35 CRR                      | h                                      | 120 077   | (0)                              | 120 077   | -                      | 120 077   |
| unrealized losses according to Art. 35 CRR                     |                                        | (5)       | -                                | (5)       | -                      | (5)       |
| other                                                          |                                        | -         | -                                | -         | -                      | -         |
| Currency translation                                           |                                        | 23        | 29                               | 52        | -                      | 52        |
| Remeasurement of net liability of defined pension plans        |                                        | (609)     | 0                                | (609)     | 128                    | (481)     |
| Deferred tax                                                   |                                        | (25 087)  | (0)                              | (25 087)  | (128)                  | (25 215)  |
| Profit or loss attributable to equity holders of the parent    |                                        | 163 880   | 5                                | 163 886   | (163 886)              | -         |
| Other                                                          |                                        | -         | -                                | -         | -                      | -         |
| Equity attributable to the owners of the parent                |                                        | 1 535 640 | (2 437)                          | 1 533 203 | (166 599)              | 1 366 605 |
| Equity attributable to non-controlling interests               | d                                      | 31        | (31)                             | -         | -                      | -         |
| Total equity                                                   |                                        | 1 535 671 | (2 467)                          | 1 533 203 | (166 599)              | 1 366 605 |

Total equity as at 31 December 2016:

| EUR ths.                                                       | Own funds disclosure table - reference | IFRS      | Effects - scope of consolidation | CRR       | Regulatory adjustments | Own funds |
|----------------------------------------------------------------|----------------------------------------|-----------|----------------------------------|-----------|------------------------|-----------|
| Subscribed capital                                             |                                        | 212 000   | -                                | 212 000   | -                      | 212 000   |
| Capital reserve                                                |                                        | 118 899   | 0                                | 118 899   | (0)                    | 118 899   |
| AT1 capital instruments and the related share premium accounts | a                                      | 150 000   | (0)                              | 150 000   | 0                      | 150 000   |
| Retained earnings                                              | b                                      | 783 595   | (2 344)                          | 781 252   | 0                      | 781 252   |
| Other comprehensive income (OCI)                               | c                                      | 82 807    | 29                               | 82 836    | (0)                    | 82 836    |
| Cash flow hedge reserve                                        | g                                      | -         | -                                | -         | (0)                    | (0)       |
| Available for sale reserve                                     |                                        | 106 303   | (0)                              | 106 303   | -                      | 106 303   |
| unrealized gains according to Art. 35 CRR                      | h                                      | 107 002   | (0)                              | 107 002   | -                      | 107 002   |
| unrealized losses according to Art. 35 CRR                     |                                        | (699)     | -                                | (699)     | -                      | (699)     |
| other                                                          |                                        | -         | -                                | -         | -                      | -         |
| Currency translation                                           |                                        | (386)     | 29                               | (357)     | -                      | (357)     |
| Remeasurement of net liability of defined pension plans        |                                        | (783)     | (0)                              | (783)     | -                      | (783)     |
| Deferred tax                                                   |                                        | (22 327)  | 0                                | (22 327)  | -                      | (22 327)  |
| Profit or loss attributable to equity holders of the parent    |                                        | 214 544   | (127)                            | 214 417   | (214 417)              | -         |
| Other                                                          |                                        | 222       | -                                | 222       | (222)                  | -         |
| Equity attributable to the owners of the parent                |                                        | 1 562 067 | (2 442)                          | 1 559 626 | (214 639)              | 1 344 986 |
| Equity attributable to non-controlling interests               | d                                      | 37        | (37)                             | -         | -                      | -         |
| Total equity                                                   |                                        | 1 562 104 | (2 478)                          | 1 559 626 | (214 639)              | 1 344 986 |

Further details regarding the development of IFRS equity are disclosed under "Group Statement of Changes in Total Equity".

## Intangible assets

The following table shows intangible assets according to IFRS and CRR scope of consolidation and amount of deduction of regulatory own funds.

Intangible assets as at 31 December 2017:

| EUR ths.          | Own funds disclosure table - reference | IFRS   | Effects - scope of consolidation | CRR    | Regulatory adjustments | Own funds |
|-------------------|----------------------------------------|--------|----------------------------------|--------|------------------------|-----------|
| Intangible assets | e                                      | 55 457 | -                                | 55 457 | -                      | 55 457    |
| Intangible assets | e                                      | 55 457 | -                                | 55 457 | -                      | 55 457    |

Intangible assets as at 31 December 2016:

| EUR ths.          | Own funds disclosure table - reference | IFRS   | Effects - scope of consolidation | CRR    | Regulatory adjustments | Own funds |
|-------------------|----------------------------------------|--------|----------------------------------|--------|------------------------|-----------|
| Intangible assets | e                                      | 71 955 | -                                | 71 955 | -                      | 71 955    |
| Intangible assets | e                                      | 71 955 | -                                | 71 955 | -                      | 71 955    |

Details regarding the development of intangible assets are disclosed under "Intangible assets" (note 21)."

## Deferred taxes

The following table shows deferred taxes according to IFRS and CRR scope of consolidation.

Deferred taxes as at 31 December 2017:

| EUR ths.                                                                                                                            | Own funds disclosure table - reference | IFRS   | Effects - scope of consolidation | CRR / Own Funds |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------|----------------------------------|-----------------|
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities |                                        | 777    | -                                | 777             |
| related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions              | f                                      | -      | -                                | -               |
| related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions           |                                        | -      | -                                | -               |
| Deferred tax assets that rely on future profitability and arise from temporary differences                                          |                                        | 32 934 | (33)                             | 32 901          |
| Deferred tax assets                                                                                                                 |                                        | 33 711 | (33)                             | 33 677          |

Deferred taxes as at 31 December 2016:

| EUR ths.                                                                                                                            | Own funds disclosure table - reference | IFRS   | Effects - scope of consolidation | CRR / Own Funds |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------|----------------------------------|-----------------|
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities |                                        | 1 726  | -                                | 1 726           |
| related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions              | f                                      | -      | -                                | -               |
| related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions           |                                        | -      | -                                | -               |
| Deferred tax assets that rely on future profitability and arise from temporary differences                                          |                                        | 32 304 | (43)                             | 32 260          |
| Deferred tax assets                                                                                                                 |                                        | 34 030 | (43)                             | 33 986          |

Based on the threshold definition according to Article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for the Group at the year end 2017. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Details regarding deferred tax assets are disclosed under "Tax assets and liabilities" (note 22).

## Subordinated liabilities

The following table shows subordinated liabilities according to IFRS and CRR scope of consolidation.

Subordinated liabilities as at 31 December 2017

| EUR ths.                                                                                                                | Own funds disclosure table - reference | IFRS   | Effects - scope of consolidation | CRR    | Regulatory adjustments | Own funds |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------|----------------------------------|--------|------------------------|-----------|
| Subordinated issues and deposits and supplementary capital                                                              |                                        | 77 446 | -                                | 77 446 | (39 569)               | 37 877    |
| Tier 2 capital instruments (including related share premium) issued by the parent company                               | k                                      | 77 446 | -                                | 77 446 | (39 569)               | 37 877    |
| Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party | l                                      | -      | -                                | -      | -                      | -         |
| instruments issued by subsidiaries                                                                                      | m                                      | -      | -                                | -      | -                      | -         |
| Hybrid issues                                                                                                           | i                                      | -      | -                                | -      | -                      | -         |
| Subordinated liabilities                                                                                                |                                        | 77 446 | -                                | 77 446 | (39 569)               | 37 877    |

Subordinated liabilities as at 31 December 2016

| EUR ths.                                                                                                                | Own funds disclosure table - reference | IFRS   | Effects - scope of consolidation | CRR    | Regulatory adjustments | Own funds |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------|----------------------------------|--------|------------------------|-----------|
| Subordinated issues and deposits and supplementary capital                                                              |                                        | 74 785 | -                                | 74 785 | (26 720)               | 48 065    |
| Tier 2 capital instruments (including related share premium) issued by the parent company                               | k                                      | 74 785 | -                                | 74 785 | (26 720)               | 48 065    |
| Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party | l                                      | -      | -                                | -      | -                      | -         |
| instruments issued by subsidiaries                                                                                      | m                                      | -      | -                                | -      | -                      | -         |
| Hybrid issues                                                                                                           | i                                      | -      | -                                | -      | -                      | -         |
| Subordinated liabilities                                                                                                |                                        | 74 785 | -                                | 74 785 | (26 720)               | 48 065    |

Podrobné informácie o podriadených záväzkoch sú zverejnené v v časti "Finančné záväzky ocenené amortizovanou obstarávacou cenou" a "Finančné záväzky oceňované v reálnej hodnote cez výkaz ziskov a strát" (poznámka 24).

## Own funds development

The following table shows own funds development between the start and the end of the period:

| EUR ths.                                          | 2016             | 2017             |
|---------------------------------------------------|------------------|------------------|
| <b>CET1 as of 1 Jan</b>                           | <b>1 039 108</b> | <b>1 069 395</b> |
| Changes in retained earnings                      | 29 717           | 10 026           |
| Changes in accumulated other comprehensive income | 24 967           | 11 592           |
| Changes in minority interest                      | -                | -                |
| Changes in prudential filters                     | 945              | 523              |
| Changes in regulatory deductions                  | 13 290           | 17 448           |
| goodwill                                          | -                | -                |
| other intangibles                                 | 15 016           | 16 499           |
| Other                                             | (38 632)         | 18 162           |
| <b>CET1 as of 31 Dec</b>                          | <b>1 069 395</b> | <b>1 127 145</b> |
|                                                   | -                | -                |
| <b>Additional Tier 1 development</b>              | -                | -                |
| <b>AT1 as of 1 Jan</b>                            | <b>150 000</b>   | <b>150 000</b>   |
| Net increase / decrease in AT1                    | -                | -                |
| Changes in regulatory deduction                   | -                | -                |
| Other                                             | -                | -                |
| <b>AT1 as of 31 Dec</b>                           | <b>150 000</b>   | <b>150 000</b>   |
|                                                   | -                | -                |
| <b>Tier 2 development</b>                         | -                | -                |
| <b>T2 as of 1 Jan</b>                             | <b>91 047</b>    | <b>75 433</b>    |
| Net decrease in T2                                | (26 951)         | (10 188)         |
| Changes in regulatory deduction                   | -                | -                |
| IRB Excess and SA credit risk adjustments         | 11 337           | 5 278            |
| <b>T2 as of 31 Dec</b>                            | <b>75 433</b>    | <b>70 523</b>    |
|                                                   | -                | -                |
| <b>Total own funds</b>                            | <b>1 294 828</b> | <b>1 347 669</b> |



## Transitional provisions

The Transitional Provisions are not applied by the Group.

## Own funds template

Disclosure requirements: Art. 437 (1) (d) (e) CRR

The Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

The table below presents the composition of the regulatory capital based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. There are no transitional provisions that would affect the calculation of the own funds. The table is presenting own funds according to Basel 3 fully loaded regime.

The following table shows Own funds disclosure template according to Article 5 in Commission implementing regulation (EU) No 1423/2013.

| EUR ths.                                                             |                                                                                                                                                     | Regulation (EU) No 575/2013<br>article reference | Reference to<br>reconciliation<br>tables | 2016             | 2017             |
|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------|------------------|------------------|
| <b>Common equity tier 1 (CET1) capital: instruments and reserves</b> |                                                                                                                                                     |                                                  |                                          |                  |                  |
| 1                                                                    | Common equity tier 1 (CET1) capital: instruments and reserves                                                                                       | 26 (1), 27, 28, 29, EBA list<br>26 (3)           | a                                        | 212 000          | 212 000          |
|                                                                      | thereof ordinary shares                                                                                                                             | EBA list 26 (3)                                  | a                                        | 212 000          | 212 000          |
| 2                                                                    | Retained earnings                                                                                                                                   | 26 (1) (c)                                       | b                                        | 900 151          | 910 177          |
| 3                                                                    | Accumulated other comprehensive income (and other reserves, to<br>include unrealised gains and losses under the applicable accounting<br>standards) | 26 (1)                                           |                                          | 82 836           | 94 428           |
| 3a                                                                   | Fund for general banking risk                                                                                                                       | 26 (1) (f)                                       | c                                        | -                | -                |
| 4                                                                    | Amount of qualifying items referred to in Article 484 (3) and the<br>related share premium accounts subject to phase out from CET1                  | 486 (2)                                          |                                          | -                | -                |
|                                                                      | Public sector capital injections grandfathered until Jan 18                                                                                         | 483 (2)                                          |                                          | -                | -                |
| 5                                                                    | Minority interests (amount allowed in consolidated CET1)                                                                                            | 84, 479, 480                                     | d                                        | -                | -                |
| 5a                                                                   | Independently reviewed interim profits net of any foreseeable charge<br>or dividend                                                                 | 26 (2)                                           |                                          | -                | -                |
| 6                                                                    | <b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>                                                                            |                                                  |                                          | <b>1 194 987</b> | <b>1 216 605</b> |

| continued |  | Regulation (EU) No 575/2013<br>article reference | Reference to<br>reconciliati-<br>on tables | 2016 | 2017 |
|-----------|--|--------------------------------------------------|--------------------------------------------|------|------|
| EUR ths.  |  |                                                  |                                            |      |      |

### Common Equity Tier 1 (CET1) capital before regulatory adjustments

|     |                                                                                                                                                                                                                                                                         |                                                                      |   |          |          |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---|----------|----------|
| 7   | Additional value adjustments (negative amount)                                                                                                                                                                                                                          | 34, 105                                                              |   | (4 428)  | (3 394)  |
| 8   | Intangible assets (net of related tax liability) (negative amount)                                                                                                                                                                                                      | 36 (1) (b), 37, 472 (4)                                              | e | (71 955) | (55 457) |
| 9   | Empty Set in the EU                                                                                                                                                                                                                                                     |                                                                      |   | -        | -        |
| 10  | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)                                                                | 36 (1) (c), 38, 472 (5)                                              | f | (1 726)  | (777)    |
| 11  | Fair value reserves related to gains or losses on cash flow hedges                                                                                                                                                                                                      | 33 (a)                                                               | g | -        | -        |
| 12  | Negative amounts resulting from the calculation of expected loss amounts                                                                                                                                                                                                | 36 (1) (d), 40, 159, 472 (6)                                         |   | -        | -        |
| 13  | Any increase in equity that results from securitised assets (negative amount)                                                                                                                                                                                           | 32 (1)                                                               |   | -        | -        |
| 14  | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing                                                                                                                                                                       | 33 (b)                                                               |   | 752      | 241      |
| 15  | Defined-benefit pension fund assets (negative amount)                                                                                                                                                                                                                   | 36 (1) (e), 41, 472 (7)                                              |   | -        | -        |
| 16  | Direct and indirect holdings by an institution of own CET1 instruments (negative amount)                                                                                                                                                                                | 36 (1) (f), 42, 472 (8)                                              |   | -        | -        |
| 17  | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                                              | 36 (1) (g), 44, 472 (9)                                              |   | -        | -        |
| 18  | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)  | 36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)                     |   | -        | -        |
| 19  | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11) |   | -        | -        |
| 20  | Empty Set in the EU                                                                                                                                                                                                                                                     |                                                                      |   | -        | -        |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative                                                                                                                                        | 36 (1) (k)                                                           |   | -        | -        |
| 20b | of which: qualifying holdings outside the financial sector (negative amount)                                                                                                                                                                                            | 36 (1) (k) (i), 89 to 91                                             |   | -        | -        |
| 20c | of which: securitisation positions (negative amount)                                                                                                                                                                                                                    | 36 (1) (k) (ii)<br>243 (1) (b)<br>244 (1) (b)<br>258                 |   | -        | -        |
| 20d | of which: free deliveries (negative amount)                                                                                                                                                                                                                             | 36 (1) (k) (iii), 379 (3)                                            |   | -        | -        |
| 21  | Deferred tax assets arising from temporary differences (amount above 10 % threshold , net of related tax liability where the conditions in 38 (3) are met) (negative amount)                                                                                            | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5)                             |   | -        | -        |
| 22  | Amount exceeding the 15% threshold (negative amount)                                                                                                                                                                                                                    | 48 (1)                                                               |   | -        | -        |
| 23  | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities                                                                                     | 36 (1) (i), 48 (1) (b), 470, 472 (11)                                |   | -        | -        |
| 24  | Empty Set in the EU                                                                                                                                                                                                                                                     |                                                                      |   | -        | -        |
| 25  | of which: deferred tax assets arising from temporary differences                                                                                                                                                                                                        | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5)                             |   | -        | -        |
| 25a | Losses for the current financial year (negative amount)                                                                                                                                                                                                                 | 36 (1) (a), 472 (3)                                                  |   | -        | -        |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount)                                                                                                                                                                                                        | 36 (1) (l)                                                           |   | -        | -        |

| continued<br>EUR ths. |                                                                                                                                       | Regulation (EU) No 575/2013<br>article reference | Reference to<br>reconciliati-<br>on tables | 2016             | 2017             |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------|------------------|------------------|
| 26                    | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment                             |                                                  |                                            | -                | -                |
| 26a                   | Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468                                       |                                                  |                                            | -                | -                |
|                       | unrealised loss                                                                                                                       | 467                                              |                                            | -                | -                |
|                       | unrealised gain                                                                                                                       | 468                                              | h                                          | -                | -                |
| 26b                   | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR | 481                                              |                                            | -                | -                |
| 27                    | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)                                            | 36 (1) (j)                                       |                                            | -                | -                |
|                       | CET1 other deductions                                                                                                                 |                                                  |                                            | (48 235)         | (30 073)         |
| <b>28</b>             | <b>Total regulatory adjustments to Common equity Tier 1 (CET1)</b>                                                                    |                                                  |                                            | <b>(125 592)</b> | <b>(89 459)</b>  |
| <b>29</b>             | <b>Common Equity Tier 1 (CET1) capital</b>                                                                                            |                                                  |                                            | <b>1 069 395</b> | <b>1 127 145</b> |

#### Additional Tier 1 (AT1) capital: instruments

|           |                                                                                                                                                                     |             |   |                |                |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---|----------------|----------------|
| 30        | Capital instruments and the related share premium accounts                                                                                                          | 51, 52      |   | 150 000        | 150 000        |
| 31        | of which: classified as equity under applicable accounting standards                                                                                                |             |   | 150 000        | 150 000        |
| 32        | of which: classified as liabilities under applicable accounting standards                                                                                           |             |   | -              | -              |
| 33        | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1                                      | 486 (3)     | i | -              | -              |
|           | Public sector capital injections grandfathered until 1 January 2018                                                                                                 | 483 (3)     |   | -              | -              |
| 34        | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | 85, 86, 480 |   | -              | -              |
| 35        | of which: instruments issued by subsidiaries subject to phase out                                                                                                   | 486 (3)     |   | -              | -              |
| <b>36</b> | <b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>                                                                                                |             |   | <b>150 000</b> | <b>150 000</b> |

#### Additional Tier 1 (AT1) capital: regulatory adjustments

|    |                                                                                                                                                                                                                                                             |                                 |  |   |   |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--|---|---|
| 37 | Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)                                                                                                                                                                     | 52 (1) (b), 56 (a), 57, 475 (2) |  | - | - |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                                   | 56 (b), 58, 475 (3)             |  | - | - |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)          | 56 (c), 59, 60, 79, 475 (4)     |  | - | - |
| 40 | Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount) | 56 (d), 59, 79, 475 (4)         |  | - | - |
| 41 | Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)                             |                                 |  | - | - |

| continued |                                                                                                                                                                                                           | Regulation (EU) No 575/2013<br>article reference                                   | Reference to<br>reconciliati-<br>on tables | 2016             | 2017             |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------|------------------|------------------|
| EUR ths.  |                                                                                                                                                                                                           |                                                                                    |                                            |                  |                  |
| 41a       | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 | 472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) |                                            | -                | -                |
|           | Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc                                                                 |                                                                                    |                                            | -                | -                |
| 41b       | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013               | 477, 477 (3), 477 (4) (a)                                                          |                                            | -                | -                |
|           | Of which items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc       |                                                                                    |                                            | -                | -                |
| 41c       | Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR                                                                       | 467, 468, 481                                                                      |                                            | -                | -                |
|           | Of which: ... possible filter for unrealised losses                                                                                                                                                       | 467                                                                                |                                            | -                | -                |
|           | Of which: ... possible filter for unrealised gains                                                                                                                                                        | 468                                                                                |                                            | -                | -                |
|           | Of which: ...                                                                                                                                                                                             | 481                                                                                |                                            | -                | -                |
| 42        | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)                                                                                                                  | 56 (e)                                                                             |                                            | -                | -                |
| <b>43</b> | <b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>                                                                                                                                    |                                                                                    |                                            | -                | -                |
| <b>44</b> | <b>Additional Tier 1 (AT1) capital</b>                                                                                                                                                                    |                                                                                    |                                            | <b>150 000</b>   | <b>150 000</b>   |
| <b>45</b> | <b>Tier 1 capital (T1 = CET1 + AT1)</b>                                                                                                                                                                   |                                                                                    |                                            | <b>1 219 395</b> | <b>1 277 145</b> |

#### Tier 2 (T2) capital: Instruments and provisions

|           |                                                                                                                                                                                                       |             |   |               |               |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---|---------------|---------------|
| 46        | Capital instruments and the related share premium accounts                                                                                                                                            | 62, 63      | k | 48 065        | 37 877        |
| 47        | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2                                                                         | 486 (4)     |   | -             | -             |
|           | Public sector capital injections grandfathered until 1 January 2018                                                                                                                                   | 483 (4)     |   | -             | -             |
| 48        | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 87, 88, 480 | l | -             | -             |
| 49        | of which: instruments issued by subsidiaries subject to phase out                                                                                                                                     | 486 (4)     | m | -             | -             |
| 50        | Credit risk adjustments                                                                                                                                                                               | 62 c) & (d) |   | 27 369        | 32 647        |
| <b>51</b> | <b>Tier 2 (T2) capital before regulatory adjustments</b>                                                                                                                                              |             |   | <b>75 433</b> | <b>70 523</b> |

| continued<br>EUR ths.                              |                                                                                                                                                                                                                                                                           | Regulation (EU) No 575/2013<br>article reference                                   | Reference to<br>reconciliati-<br>on tables | 2016             | 2017             |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------|------------------|------------------|
| <b>Tier 2 (T2) capital: regulatory adjustments</b> |                                                                                                                                                                                                                                                                           |                                                                                    |                                            |                  |                  |
| 52                                                 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)                                                                                                                                                             | 63 (b) (i), 66 (a), 67, 477 (2)                                                    | -                                          | -                | -                |
| 53                                                 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                           | 66 (b), 68, 477 (3)                                                                | -                                          | -                | -                |
| 54                                                 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | 66 (c), 69, 70, 79, 477 (4)                                                        | -                                          | -                | -                |
| 54a                                                | Of which new holdings not subject to transitional arrangements                                                                                                                                                                                                            |                                                                                    | -                                          | -                | -                |
| 54b                                                | Of which holdings existing before 1 January 2013 and subject to transitional arrangements                                                                                                                                                                                 |                                                                                    | -                                          | -                | -                |
| 55                                                 | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)                        | 66 (d), 69, 79, 477 (4)                                                            | -                                          | -                | -                |
| 56                                                 | Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)                                                     |                                                                                    | -                                          | -                | -                |
| 56a                                                | Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013                                                                                | 472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) | -                                          | -                | -                |
|                                                    | Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc                                                                                                                                 |                                                                                    | -                                          | -                | -                |
| 56b                                                | Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013                                                                               | 475, 475 ods. 2 písm. a), 475 ods. 3, 475 ods. 4 písm. a)                          | -                                          | -                | -                |
|                                                    | Of which items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc                                                                      |                                                                                    | -                                          | -                | -                |
| 56c                                                | Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR                                                                                                                                                   | 467, 468, 481                                                                      | -                                          | -                | -                |
|                                                    | Of which: ... possible filter for unrealised losses                                                                                                                                                                                                                       | 467                                                                                | -                                          | -                | -                |
|                                                    | Of which: ... possible filter for unrealised gains                                                                                                                                                                                                                        | 468                                                                                | -                                          | -                | -                |
|                                                    | Of which: ...                                                                                                                                                                                                                                                             | 481                                                                                | -                                          | -                | -                |
| 57                                                 | <b>Total regulatory adjustments to Tier 2 (T2) capital</b>                                                                                                                                                                                                                |                                                                                    | -                                          | -                | -                |
| 58                                                 | <b>Tier 2 (T2) capital</b>                                                                                                                                                                                                                                                |                                                                                    |                                            | <b>75 433</b>    | <b>70 523</b>    |
| 59                                                 | <b>Total capital (TC = T1 + T2)</b>                                                                                                                                                                                                                                       |                                                                                    |                                            | <b>1 294 828</b> | <b>1 347 669</b> |

| continued |  | Regulation (EU) No 575/2013<br>article reference | Reference to<br>reconciliation<br>tables | 2016 | 2017 |
|-----------|--|--------------------------------------------------|------------------------------------------|------|------|
| EUR ths.  |  |                                                  |                                          |      |      |

### Total risk-weighted assets

|           |                                                                                                                                                                                                                                                                                                                                                                            |                                                       |  |                  |                  |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--|------------------|------------------|
| 59a       | Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)                                                                                                                                                                          |                                                       |  | -                | -                |
|           | Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)                                                                                                                | 472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b) |  | -                | -                |
|           | Of which: ... items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)                                                                               | 475, 475 (2) (b), 475 (2) (c), 475 (4) (b)            |  | -                | -                |
|           | Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.) | 477, 477 (2) (b), 477 (2) (c), 477 (4) (b)            |  | -                | -                |
| <b>60</b> | <b>total risk-weighted assets</b>                                                                                                                                                                                                                                                                                                                                          |                                                       |  | <b>6 019 843</b> | <b>7 192 445</b> |

### Capital ratios and buffers

|     |                                                                                                                                                                                                                                                                                                                              |                   |  |         |         |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--|---------|---------|
| 61  | Common Equity Tier 1 (as a percentage of risk exposure amount)                                                                                                                                                                                                                                                               | 92 (2) (a), 465   |  | 17,8%   | 15,7%   |
| 62  | Tier 1 (as a percentage of total risk exposure amount)                                                                                                                                                                                                                                                                       | 92 (2) (b), 465   |  | 20,3%   | 17,8%   |
| 63  | Total capital (as a percentage of total risk exposure amount)                                                                                                                                                                                                                                                                | 92 (2) (c)        |  | 21,5%   | 18,7%   |
| 64  | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | CRD 128, 129, 130 |  | 210 694 | 357 537 |
| 65  | of which: capital conservation buffer requirement                                                                                                                                                                                                                                                                            |                   |  | 150 496 | 179 811 |
| 66  | of which: countercyclical buffer requirement                                                                                                                                                                                                                                                                                 |                   |  | -       | 33 877  |
| 67  | of which: systemic risk buffer requirement                                                                                                                                                                                                                                                                                   |                   |  | -       | 71 924  |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer                                                                                                                                                                                                       | CRD 131           |  | 60 198  | 71 924  |
| 68  | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)                                                                                                                                                                                                                                     | CRD 128           |  | 13,3%   | 11,2%   |
| 69  | [non-relevant in EU regulation]                                                                                                                                                                                                                                                                                              |                   |  | -       | -       |
| 70  | [non-relevant in EU regulation]                                                                                                                                                                                                                                                                                              |                   |  | -       | -       |
| 71  | [non-relevant in EU regulation]                                                                                                                                                                                                                                                                                              |                   |  | -       | -       |

| continued |  | Regulation (EU) No 575/2013<br>article reference | Reference to<br>reconciliati-<br>on tables | 2016 | 2017 |
|-----------|--|--------------------------------------------------|--------------------------------------------|------|------|
| EUR ths.  |  |                                                  |                                            |      |      |

### Capital ratios and buffers

|    |                                                                                                                                                                                                                                            |                                                                               |  |        |        |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--|--------|--------|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)                   | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4) |  | 678    | 3 059  |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 36 (1) (i), 45, 48, 470, 472 (11)                                             |  | 30 421 | 31 059 |
| 74 | Empty Set in the EU                                                                                                                                                                                                                        |                                                                               |  | -      | -      |
| 75 | Deferred tax assets arising from temporary differences (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)                                                                         | 36 (1) (c), 38, 48, 470, 472 (5)                                              |  | 32 260 | 32 901 |

### Applicable caps on the inclusion of provisions in Tier 2

|    |                                                                                                                                                |    |  |        |        |
|----|------------------------------------------------------------------------------------------------------------------------------------------------|----|--|--------|--------|
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)          | 62 |  | -      | -      |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach                                                                  | 62 |  | -      | -      |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | 62 |  | 34 600 | 68 165 |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach                                                       | 62 |  | 27 369 | 32 647 |

### Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)

|    |                                                                                         |                        |  |   |   |
|----|-----------------------------------------------------------------------------------------|------------------------|--|---|---|
| 80 | Current cap on CET1 instruments subject to phase-out arrangements                       | 484 (3), 486 (2) & (5) |  | - | - |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | 484 (3), 486 (2) & (5) |  | - | - |
| 82 | Current cap on AT1 instruments subject to phase out arrangements                        | 484 (4), 486 (3) & (5) |  | - | - |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)  | 484 (4), 486 (3) & (5) |  | - | - |
| 84 | Current cap on T2 instruments subject to phase out arrangements                         | 484 (5), 486 (4) & (5) |  | - | - |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)   | 484 (5), 486 (4) & (5) |  | - | - |



### 39) Events after the reporting period

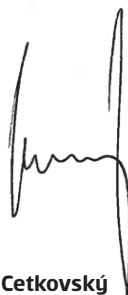
Since 31 December 2017 up to the date of issue of these consolidated financial statements there were no events identified that would require adjustments or disclosure.

These consolidated financial statements were signed and authorised for issue by the Board of Directors of the Bank on 13 February 2018.



**Ing. Peter Krutil**

Chairman of the Board of Directors and  
Chief Executive Officer



**Ing. Pavel Cetkovský**

Member of the Board of Directors and  
Deputy of Chief Executive Officer

**Slovenská sporiteľňa, a. s.**

**Separate financial statements**  
prepared in accordance with International  
Financial Reporting Standards  
as adopted by the European Union  
for the year ended 31 December 2017



## *Independent Auditor's Report*

To the Shareholder, Supervisory Board, and Board of Directors of  
Slovenská sporiteľňa, a.s.

### ***Our opinion***

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Slovenská sporiteľňa, a.s. (the "Bank") as at 31 December 2017, and 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“).

Our opinion is consistent with our additional report to the Audit Committee.

### ***What we have audited***

The separate financial statements of Slovenská sporiteľňa, a.s. comprise:

- the separate statement of financial position as at 31 December 2017;
- the separate statement of profit or loss for the year then ended;
- the separate statement of other comprehensive income for the year then ended;
- the separate statement of changes in equity for the year ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

### ***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 *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence***

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014.

PricewaterhouseCoopers Slovensko, s.r.o., Twin City/A, Karadžičova 2, 815 32 Bratislava, Slovak Republic  
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, [www.pwc.com/sk](http://www.pwc.com/sk)

The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.



## ***Our audit approach***

### ***Audit scope***

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the financial services industry in which the Bank operates.

2017 was the first year we were appointed as auditors of the Bank. We commenced our preparation for the audit take-over already in May 2016 in order to ensure that we fulfil all the independence requirements imposed upon us as incoming auditors of the Bank.

Since our appointment on 27 March 2017, we used the opportunity to meet with key members of the management of the Bank in order to obtain understanding of current business matters and to gather information that would enable us to plan our audit. We also held hand-over meeting with the prior year auditor and reviewed their working papers in order to understand on which controls they relied and what evidence they used to support their opinion. We used our information technology specialists to map the information and control systems of the Bank. These activities facilitated planning and performing the audit.

### ***Materiality***

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate financial statements as a whole.





### **Overall materiality**

EUR 12,877 million

### **How we determined it**

We based the materiality on a combination of two benchmarks, profit before tax and equity, each carrying 50% weight.

### **Rationale for the materiality benchmark applied**

The performance of the Bank is most commonly evaluated by financial statements' users based on the Bank's profitability. However, the Bank's capital is also an important indicator for many users of the financial statements and shareholder return is commonly expressed relative to the amount of the Bank's capital, that is, as a return on equity. The quantitative thresholds of approximately 5% applied to profit before tax and 1% applied to equity, respectively, are within a range set out in our internal firm's guidance.

## **Key audit matters**

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

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | How our audit addressed the Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Loan loss provisions estimate</b></p> <p>IFRS requires management to make judgments about the future and various items in the separate financial statements are also subject to estimation uncertainty. The estimates required for loan loss provisions are significant estimates, as explained in more detail in Note B in the separate financial statements.</p> <p>The identification of loans that are deteriorating, the assessment of objective evidence of impairment, the value of collateral and the determination of the recoverable amount of loans are all inherently uncertain.</p> <p>The Bank recognizes portfolio provisions for loans, which are not individually significant, and a provision for impairment losses incurred but not yet reported or identified with a specific loan. This requires an accurate identification of balances that are not individually significant and grouping of loans with similar credit risk characteristics.</p> <p>We focused on this area during the audit due to the significance of the amounts involved for the separate financial statements and also because of the nature of the judgements and assumptions that management are required to make.</p> | <p>Our audit approach was the following:</p> <p>We verified that the Bank's methodology for estimating loan loss provisions was appropriate and was being applied consistently.</p> <p>We assessed and tested the design, implementation, and operating effectiveness of the controls related to the timely identification of impaired loans, and performed an independent validation of the models used by management for calculation of loan loss provisions.</p> <p>We examined a sample of individually significant loan exposures, in order to test loan loss provisions calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default.</p> <p>We assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Bank to estimate portfolio loan loss provisions for loans that share similar credit risk characteristics.</p> <p>Our audit did not lead to any material adjustments to the loan loss provisions at 31 December 2017.</p> |



### ***Reporting on other information in the annual report***

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"), the Slovak Act on Stock Exchanges No. 429/2002 as amended and the Slovak Act on Securities and Investment Services No. 566/2001 as amended. The annual report comprises (a) the separate financial statements and (b) other information. Management has not prepared the annual report by the date of our audit report.

Our opinion on the separate financial statements does not cover the other information.

When the annual report becomes available to us, our responsibility will be to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we will also consider whether annual report includes the disclosures required by the Accounting Act, when it becomes available to us. This will include checking the consistency of the annual report with the separate financial statements, and whether the annual report has been prepared in accordance with the Accounting Act.

In addition, our updated report will either state that we have nothing to report in respect of the above, or will describe any material misstatements we identified in the annual report based on our knowledge and understanding of the Bank and its environment, which we obtained during our audit.

### ***Responsibilities of management and those charged with governance for the separate financial statements***

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

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

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

### ***Auditor's responsibilities for the audit of the separate financial statements***

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





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

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

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

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

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





### ***Our appointment as independent auditor***

We were first appointed as auditors of the Bank by the General Assembly on 27 March 2017. This represents a total period of uninterrupted audit service of one year.

*PricewaterhouseCoopers Slovensko, s.r.o.*  
PricewaterhouseCoopers Slovensko, s.r.o.  
SKAU licence No. 161

Bratislava, 13 February 2018

*Martin Gallovič*  
Mgr. Martin Gallovič  
UDVA licence No. 1180



Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.



## Separate statement of profit or loss

for the year ended 31 December 2017

| EUR ths.                                                                                                | Notes | 2016           | 2017           |
|---------------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| Net interest income                                                                                     | 1     | 461 988        | 439 610        |
| Interest income                                                                                         | 1     | 510 903        | 472 319        |
| Interest expense                                                                                        | 1     | (48 915)       | (32 709)       |
| Net fee and commission income                                                                           | 2     | 121 719        | 112 710        |
| Fee and commission income                                                                               | 2     | 143 619        | 135 955        |
| Fee and commission expenses                                                                             | 2     | (21 900)       | (23 245)       |
| Dividend income                                                                                         | 3     | 3 592          | 3 149          |
| Net trading result                                                                                      | 4     | 13 489         | 13 773         |
| Result from financial instruments designated at fair value through profit or loss                       | 4     | (916)          | (514)          |
| Rental income from investment properties                                                                | 5     | 367            | 324            |
| Personnel expenses                                                                                      | 6     | (133 399)      | (139 986)      |
| Other administrative expenses                                                                           | 6     | (104 434)      | (104 213)      |
| Depreciation and amortisation                                                                           | 6     | (41 371)       | (40 963)       |
| Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net | 7     | 27 044         | 300            |
| Net impairment loss on financial assets not measured at fair value through profit or loss               | 8     | (48 235)       | (30 073)       |
| Other operating result                                                                                  | 9     | (17 007)       | (39 952)       |
| Thereof Levies on banking activities                                                                    | 9     | (29 106)       | (30 128)       |
| <b>Pre-tax profit from continuing operations</b>                                                        |       | <b>282 837</b> | <b>214 165</b> |
| Taxes on income                                                                                         | 10    | (70 616)       | (52 109)       |
| <b>Net result for the period</b>                                                                        |       | <b>212 221</b> | <b>162 056</b> |
| <b>Net result attributable to owners of the parent</b>                                                  |       | <b>212 221</b> | <b>162 056</b> |

## Earnings per share

|                                                               | 2016         | 2017       |
|---------------------------------------------------------------|--------------|------------|
| Net result attributable to owners of the parent (in EUR ths.) | 212 221      | 162 056    |
| Number of outstanding shares (in pcs.)                        | 212 000      | 212 000    |
| <b>Earnings per share (in EUR)</b>                            | <b>1 001</b> | <b>764</b> |

Diluted earnings per share equal to the disclosed basic earnings per share.

The notes on pages 201 to 307 are an integral part of these financial statements

## Separate statement of other comprehensive income for the year ended 31 December 2017

| EUR ths.                                                               | 2016            | 2017           |
|------------------------------------------------------------------------|-----------------|----------------|
| <b>Net result for the period</b>                                       | <b>212 221</b>  | <b>162 056</b> |
| <b>Items that may not be reclassified to profit or loss</b>            | <b>(124)</b>    | <b>302</b>     |
| Remeasurement of net liability of defined pension plans                | (124)           | 174            |
| Deferred taxes relating to items that may not be reclassified          | –               | 128            |
| <b>Items that may be reclassified to profit or loss</b>                | <b>(12 575)</b> | <b>11 014</b>  |
| Available for sale reserve                                             | (17 480)        | 13 942         |
| Gain/loss during the period                                            | 9 616           | 14 227         |
| Reclassification adjustments to profit or loss                         | (27 096)        | (285)          |
| Deferred taxes relating to items that may be reclassified              | 4 905           | (2 928)        |
| Gain/loss during the period                                            | (785)           | (2 988)        |
| Reclassification adjustments to profit or loss                         | 5 690           | 60             |
| <b>Total other comprehensive income</b>                                | <b>(12 699)</b> | <b>11 316</b>  |
| <b>Total comprehensive income</b>                                      | <b>199 522</b>  | <b>173 372</b> |
| <b>Total comprehensive income attributable to owners of the parent</b> | <b>199 522</b>  | <b>173 372</b> |

The notes on pages 201 to 307 are an integral part of these financial statements.

## Separate statement of financial position

as at 31 December 2017

| EUR ths.                                                           | Notes | 2016              | 2017              |
|--------------------------------------------------------------------|-------|-------------------|-------------------|
| <b>Assets</b>                                                      |       |                   |                   |
| Cash and cash balances                                             | 11    | 396 973           | 424 229           |
| Financial assets - held for trading                                | 12    | 44 814            | 36 484            |
| Derivatives                                                        | 12    | 44 814            | 36 484            |
| Financial assets - designated at fair value through profit or loss | 13    | 6 118             | 5 600             |
| Financial assets - available for sale                              | 14    | 1 063 321         | 1 020 619         |
| thereof: pledged as collateral                                     | 31    | 239 423           | 191 439           |
| Financial assets - held to maturity                                | 15    | 2 640 662         | 2 644 402         |
| thereof: pledged as collateral                                     | 31    | 58 764            | 59 010            |
| Loans and receivables to credit institutions                       | 16    | 89 906            | 177 616           |
| Loans and receivables to customers                                 | 17    | 10 296 363        | 11 758 950        |
| thereof: pledged as collateral                                     | 31    | 1 297 728         | 1 462 588         |
| Derivatives hedge accounting                                       | 18    | 7 705             | 6 761             |
| Property, plant, equipment                                         | 20    | 99 289            | 90 255            |
| Investment properties                                              | 20    | 2 388             | 2 031             |
| Intangible assets                                                  | 21    | 71 955            | 55 457            |
| Investments in subsidiaries and associates                         | 19    | 23 041            | 23 041            |
| Current tax assets                                                 | 22    | -                 | 10 618            |
| Deferred tax assets                                                | 22    | 34 166            | 33 758            |
| <b>Other assets</b>                                                | 23    | <b>24 262</b>     | <b>24 922</b>     |
| <b>Total assets</b>                                                |       | <b>14 800 963</b> | <b>16 314 743</b> |
| <b>Liabilities and equity</b>                                      |       |                   |                   |
| Financial liabilities - held for trading                           | 12    | 42 812            | 33 344            |
| Derivatives                                                        | 12    | 42 812            | 33 344            |
| Financial liabilities - measured at amortised costs                | 24    | 12 984 978        | 14 628 022        |
| Deposits from banks                                                | 24    | 278 193           | 488 564           |
| Deposits from customers                                            | 24    | 11 389 378        | 12 481 221        |
| Debt securities issued                                             | 25    | 1 317 407         | 1 567 216         |
| Other financial liabilities                                        | 24    | -                 | 91 021            |
| Derivatives hedge accounting                                       | 18    | 52 389            | 42 100            |
| Provisions                                                         | 26    | 22 426            | 25 067            |
| Current tax liabilities                                            | 22    | 4 007             | -                 |
| Other Liabilities                                                  | 27    | 160 982           | 81 664            |
| <b>Total liabilities</b>                                           |       | <b>13 267 594</b> | <b>14 810 197</b> |
| Equity attributable to owners of the parent                        | 28    | 1 533 369         | 1 504 546         |
| Subscribed capital                                                 | 28    | 212 000           | 212 000           |
| Additional paid-in capital                                         | 28    | 150 000           | 150 000           |
| Retained earnings and other reserves                               | 28    | 1 171 369         | 1 142 546         |
| <b>Total equity</b>                                                |       | <b>1 533 369</b>  | <b>1 504 546</b>  |
| <b>Total liabilities and equity</b>                                |       | <b>14 800 963</b> | <b>16 314 743</b> |

The notes on pages 201 to 307 are an integral part of these financial statements.

## Separate statement of changes in equity

for the year ended 31 December 2017

| EUR ths.                                                                    | Subscribed capital | Other capital instruments | Legal reserve fund | Other funds   | Retained earnings | Available for sale reserve | Remeasurement of net liability of defined pension plans | Deferred tax    | Total equity     |
|-----------------------------------------------------------------------------|--------------------|---------------------------|--------------------|---------------|-------------------|----------------------------|---------------------------------------------------------|-----------------|------------------|
| <b>As at 1 January 2016</b>                                                 | <b>212 000</b>     | <b>150 000</b>            | <b>79 795</b>      | <b>39 326</b> | <b>931 007</b>    | <b>123 455</b>             | <b>(658)</b>                                            | <b>(27 160)</b> | <b>1 507 764</b> |
| Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNCS | -                  | -                         | -                  | -             | (175 510)         | -                          | -                                                       | -               | (175 510)        |
| Merger of subsidiary (EGIT SK)                                              | -                  | -                         | -                  | -             | 1 594             | -                          | -                                                       | -               | 1 594            |
| Total comprehensive income                                                  | -                  | -                         | -                  | -             | 212 221           | (17 480)                   | (124)                                                   | 4 905           | 199 522          |
| Net result for the period                                                   | -                  | -                         | -                  | -             | 212 221           | -                          | -                                                       | -               | 212 221          |
| Change in revaluation reserve                                               | -                  | -                         | -                  | -             | -                 | (17 480)                   | -                                                       | -               | (17 480)         |
| Change from remeasurement of defined benefit plans                          | -                  | -                         | -                  | -             | -                 | -                          | (124)                                                   | -               | (124)            |
| Change in tax                                                               | -                  | -                         | -                  | -             | -                 | -                          | -                                                       | 4 905           | 4 905            |
| <b>As at 31 December 2016</b>                                               | <b>212 000</b>     | <b>150 000</b>            | <b>79 795</b>      | <b>39 326</b> | <b>969 311</b>    | <b>105 975</b>             | <b>(782)</b>                                            | <b>(22 255)</b> | <b>1 533 369</b> |
| <b>As at 1 January 2017</b>                                                 | <b>212 000</b>     | <b>150 000</b>            | <b>79 795</b>      | <b>39 326</b> | <b>969 311</b>    | <b>105 975</b>             | <b>(782)</b>                                            | <b>(22 255)</b> | <b>1 533 369</b> |
| Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNCS | -                  | -                         | -                  | -             | (202 195)         | -                          | -                                                       | -               | (202 195)        |
| Reclassification                                                            | -                  | -                         | -                  | (222)         | 222               | -                          | -                                                       | -               | -                |
| Total comprehensive income                                                  | -                  | -                         | -                  | -             | 162 056           | 13 942                     | 174                                                     | (2 800)         | 173 372          |
| Net result for the period                                                   | -                  | -                         | -                  | -             | 162 056           | -                          | -                                                       | -               | 162 056          |
| Change in revaluation reserve                                               | -                  | -                         | -                  | -             | -                 | 13 942                     | -                                                       | -               | 13 942           |
| Change from remeasurement of defined benefit plans                          | -                  | -                         | -                  | -             | -                 | -                          | 174                                                     | -               | 348              |
| Change in tax                                                               | -                  | -                         | -                  | -             | -                 | -                          | -                                                       | (2 800)         | (2 800)          |
| <b>As at 31 December 2017</b>                                               | <b>212 000</b>     | <b>150 000</b>            | <b>79 795</b>      | <b>39 104</b> | <b>929 394</b>    | <b>119 917</b>             | <b>(608)</b>                                            | <b>(25 055)</b> | <b>1 504 547</b> |

The notes on pages 201 to 307 are an integral part of these financial statements.



## Separate statement of cash flows

for the year ended 31 December 2017

| EUR ths.                                                                                | 2016            | 2017            |
|-----------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Profit before income taxes</b>                                                       | <b>282 837</b>  | <b>214 165</b>  |
| Adjustments for:                                                                        |                 |                 |
| Loss allowances for loans and advances, Provisions for off-balance sheet                | 46 929          | 27 480          |
| Provisions for liabilities and other liabilities                                        | 6 587           | 9 798           |
| Impairment of tangible and intangible assets net                                        | (621)           | (786)           |
| Depreciation and amortization                                                           | 41 371          | 40 963          |
| Profit/(loss) on disposal of fixed assets                                               | 723             | 3 879           |
| Transfer of interest for financing activity                                             | 16 502          | 15 217          |
| Net gains/(losses) from investing activities                                            | (112 105)       | (88 618)        |
| Impairment of investments in subsidiaries and associates                                | (2 319)         | -               |
| <b>Cash flows from operations before changes in operating assets and liabilities</b>    | <b>279 905</b>  | <b>222 099</b>  |
| (Increase)/decrease in operating assets:                                                |                 |                 |
| Minimum reserve deposits with the central bank                                          | (79 044)        | 79 251          |
| Loans and advances to financial institutions                                            | 36 346          | (118 631)       |
| Loans and advances to customers                                                         | (927 422)       | (1 490 053)     |
| Financial assets at fair value through profit or loss and securities available for sale | 142 360         | 57 161          |
| Other assets                                                                            | 6 220           | (11 276)        |
| Increase / (decrease) in operating liabilities:                                         |                 |                 |
| Amounts owed to financial institutions                                                  | (6 743)         | 210 371         |
| Amounts owed to customers                                                               | 711 358         | 1 091 844       |
| Other financial liabilities                                                             | -               | 91 021          |
| Increase/(decrease) in derivative financial instruments (net)                           | 6 092           | (10 484)        |
| Provision for liabilities and other provisions                                          | (7 732)         | (4 253)         |
| Other liabilities                                                                       | 38 056          | (71 504)        |
| <b>Net cash flows provided by / (used in) operating activities before income tax</b>    | <b>199 399</b>  | <b>45 545</b>   |
| Income taxes paid                                                                       | (71 493)        | (69 054)        |
| <b>Net cash flows provided by / (used in) operating activities</b>                      | <b>127 906</b>  | <b>(23 509)</b> |
| <b>Cash flows from investing activities</b>                                             |                 |                 |
| Purchase of securities held to maturity                                                 | (287 175)       | (521 082)       |
| Proceeds from securities held to maturity                                               | 139 059         | 519 896         |
| Interest received from the securities held to maturity                                  | 93 582          | 84 409          |
| Dividends received from subsidiaries, associates and other investments                  | 2 400           | 2 038           |
| Purchase of share in subsidiaries and associates                                        | (3 052)         | (1)             |
| Proceeds from sale of subsidiaries and associates                                       | 17 235          | -               |
| Purchase of intangible assets, property and equipment                                   | (22 708)        | (21 503)        |
| Proceeds from sale of intangible assets, property and equipment                         | 9 404           | 3 337           |
| <b>Net cash flows provided by / (used in) investing activities</b>                      | <b>(51 255)</b> | <b>67 094</b>   |
| <b>Cash flows from financing activities</b>                                             |                 |                 |
| Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNC5             | (175 510)       | (202 195)       |
| Repayment of subordinated debt                                                          | (100 000)       | -               |
| Interest paid on subordinated debt                                                      | (1 671)         | (1 001)         |
| Issue of the bonds                                                                      | 346 242         | 411 148         |
| Repayment of the bonds                                                                  | (126 108)       | (161 839)       |
| Interest paid to the holders of the bonds                                               | (19 542)        | (13 716)        |
| <b>Net cash flows provided by / (used in) financing activities</b>                      | <b>(76 588)</b> | <b>32 397</b>   |
| Effect of foreign exchange rate changes on cash and cash equivalents                    | (266)           | (434)           |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                           | <b>(204)</b>    | <b>75 549</b>   |
| <b>Cash and cash equivalents at beginning of period</b>                                 | <b>348 244</b>  | <b>348 040</b>  |
| <b>Cash and cash equivalents at end of period</b>                                       | <b>348 040</b>  | <b>423 589</b>  |
| <b>Operational cash flows from interest and dividends</b>                               |                 |                 |
| Payments for taxes on income                                                            | (71 493)        | (69 054)        |
| Interest received                                                                       | 410 384         | 343 968         |
| Dividends received                                                                      | 3 357           | 3 071           |
| Interest paid                                                                           | (36 876)        | (20 032)        |

The notes on pages 201 to 307 are an integral part of these financial statements.

In the years 2017 and 2016 there were no other significant non-cash movements from investing and financing activities.

## Notes to the separate financial statements

### A. GENERAL INFORMATION

Slovenská sporiteľňa, a.s. (hereafter 'the Bank') has its registered office at Tomášikova 48, 832 37 Bratislava, Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653. The tax identification number of the Bank is 2020411536.

The Bank is a universal Bank offering a wide range of banking and financial services to commercial, financial and private customers, principally in the Slovak Republic.

As at 31 December 2017 the sole shareholder of the Bank was Erste Group Bank AG with the registered office located at: Am Belvedere 1, 1100 Vienna, Austria. The financial statements of Erste Group Bank AG (the parent) will be available after their completion the Austrian court Firmenbuchgericht Wien, Marxergasse 1a, Vienna 1030.

The ultimate controlling parties of Erste Group Bank AG as at 31 December 2017 were DIE ERSTE oesterreichische Spar-Casse Privatstiftung and CaixaBank S.A. Information on the parent company's shareholder structure is published in the financial statements of Erste Group Bank AG for the year 2017.

The Board of Directors of the Bank had five members as at 31 December 2017:

Ing. Štefan Máj (chairman), Ing. Peter Krutil (deputy chairman), Mag. Alexandra Habeler-Drabek (member), Ing. Richard Chomist (member) and Ing. Zdeněk Románek (member).

As at 31 December 2017 Ing. Štefan Máj resigned his function as the member of the Board of Directors, the chairman of the Board of Directors and the Chief Executive Officer due to his retirement. The Supervisory Board of the Bank has approved for the vacant position as the chairman of the Board of Directors and the Chief Executive Officer of Slovenská sporiteľňa, a.s. Ing. Peter Krutil, effective from 1 January 2018.

Effective from 26 January 2018, following a prior approval of the European Central Bank, Ing. Pavel Cetkovský has been elected as a member of the Board of Directors and deputy of the Chief Executive Officer.

The chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The deputy chairman of the Board of Directors is the first deputy of the Chief Executive Officer. Other members of the Board of Directors are the deputies of the Chief Executive Officer.

The Supervisory Board of the Bank had six members as at 31 December 2017:

Gernot Mittendorfer M.B.A. (chairman), Mag. Jan Homan (member), Mag. Ludovít Ódor (member), Ing. Tatiana Knošková (member), JUDr. Beatrice Melichárová (member) a Ing. Alena Adamcová (member).

In the year 2017 two members of the Supervisory Board met the independency condition according to the regulations issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).

The Bank is subject to the regulatory requirements of the National Bank of Slovakia and other regulatory bodies defined by the Slovak legislation.

Since 4 November 2014 the Bank operates under a direct supervision of the European Central Bank within a Single Supervision Mechanism.

### B. SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance

Pursuant to the Article 17a of the Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 Banks are required to prepare separate financial statements, consolidated financial statements and annual report according to the special regulations – Regulation (EC) no. 1606/2002 of the European Parliament and of the Council on Application of International Accounting Standards. As a result, the financial statements prepared in accordance with International Financial Reporting Standards effectively replaced the financial statements prepared under Slovak Accounting Standards.

These separate financial statements for the year ended 31 December 2017 are prepared in accordance with International Financial Reporting Standards ('IFRS' or 'IAS') as adopted by the European Union ('EU') on the basis of the regulation no. 1606/2002.

IFRS as adopted by the EU do not currently differ from IFRS and interpretations as issued by the International Accounting Standards Board (IASB), except for certain standards issued but not yet effective and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Bank has assessed that the standards not endorsed by the EU would not impact significantly these separate financial statements if they were applicable as at the presented balance sheet date. Information on application of new and amended IAS / IFRS standards are detailed in the note f).

#### b) Basis of preparation

These separate financial statements do not include consolidation of assets, liabilities and operational results of subsidiaries. As required by the law, the Bank issued Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2017, which were signed and authorised for issue by the Board of Directors of the Bank on 13 February 2018 and are available at its registered office or on the web page.

These separate financial statements have been approved by the Board of Directors of the Bank and will be submitted for approval to the Supervisory Board and the General Assembly.

The Bank's separate and consolidated financial statements for the prior period (the year ended 31 December 2016) were signed and authorised for issue on 7 February 2017.

In accordance with the applicable measurement models defined or allowed by IFRS, these separate financial statements were prepared

on a cost basis (or amortised cost), except for financial assets available for sale, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, as well as financial derivatives, hedging derivatives and related hedged items, all of which were measured at fair value.

These separate financial statements are based on the going concern assumption that the Bank will continue to operate in the foreseeable future.

These separate financial statements are presented in Euro, which is the functional currency of the Bank. The measurement unit is thousands of Eur ('Eur ths.'), unless stated otherwise. The amounts in parentheses represent negative values. The tables in these separate financial statements and notes may contain rounding differences.

The comparative amounts presented in these financial statement are those presented in the Separate statement of financial positions as at 31 December 2016 and the Separate statement of profit or loss and the Separate statement of other comprehensive income for the year ended 31 December 2016.

In the following notes, the Statement of financial position may be referred to as 'balance sheet' and the Statement of profit or loss may be referred to as 'income statement'.

## c) Subsidiaries and associates

These separate financial statements present accounts and results of the Bank only.

### Subsidiaries

The Bank holds controlling interests in the subsidiaries described in the note 19. In these separate financial statements the subsidiaries are recognised at cost, less any impairment losses.

Subsidiaries are recognized on the balance sheet from the date when control is obtained until the date when control is lost. Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with the subsidiary (the investee) and has the ability to affect those returns through its power to govern the relevant activities of this company. Relevant activities of the company are those which most significantly affect the variable returns of an entity.

### Investments in associates

The Bank has significant influence in the associates described in the note 19. In these separate financial statements the investments in associates are recognised at cost, less any impairment losses.

Investments in associates ('associates') represent entities over which the Bank exercises significant influence. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control of those policies.

### Acquisitions, sales and mergers during the presented period

The group structure of Slovenská sporiteľňa, a.s. is presented in the note 19. This note also provides information on acquisitions, sales, mergers and other transactions relating to the investments of the

Bank in subsidiaries and associates undertaken during the years 2017 and 2016.

## d) Accounting and measurement methods

### Foreign currency translations

These financial statements are presented in Euro ('Eur'), which is the functional currency of the Bank. The functional currency is the currency of the primary business environment in which an entity operates.

Transactions in foreign currencies are initially translated to Euro at the exchange rate effective as at the transaction date. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated to Euro at the exchange rate as at the balance sheet date. All resulting exchange differences are recognised in the income statement line item 'Net trading result'. Non-monetary items that are measured at historical costs in foreign currencies are translated to Euro using the exchange rates as at the dates of the initial transactions.

For foreign currency translation, the Bank uses exchange rates quoted by the European Central Bank.

### Financial instruments – recognition and measurement

Financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and financial liabilities, including derivative financial instruments, have to be recognised on the balance sheet and measured in accordance with their assigned categories.

With reference to an investment strategy, the Bank uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss
- financial assets available for sale
- financial assets held to maturity
- loans and receivables
- financial liabilities measured at amortised cost

The categories of financial instruments relevant for measurement (as per IAS 39) are not necessarily presented separately on the balance sheet. Specific relationships between the balance sheet line items and particular categories of financial instruments are described in the note (x) below.

#### (i) Initial recognition and measurement of financial instruments

Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, when an asset is delivered. Regular way trades are purchases or sales of financial assets that require delivery of an asset within the time frame generally established by a regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics, as well as on the management's intention for which the financial instruments were acquired.

Financial instruments are measured initially at their fair value including transaction costs. However, in case of financial

instruments at fair value through profit or loss, transaction costs are not included in the initial measurement and are directly recognised in the income statement.

## **(ii) Cash and cash balances**

Balances with central banks include only claims (deposits) against central banks, which are repayable on demand. Repayable on demand means that a deposit may be withdrawn at any time or with a term of notice of one business day (or 24 hours). Minimum mandatory reserves are also shown under this position.

## **(iii) Derivative financial instruments**

Derivative financial instruments used by the Bank include mainly interest rate and currency swaps, forward rate agreements, futures, interest rate and currency options and others. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- derivatives – held for trading
- derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. These derivatives are presented on the balance sheet under the heading 'Financial assets / liabilities – held for trading', as a separate line item 'Derivatives'. This line item includes all types of non-hedging derivatives regardless of their internal classification, i.e. both derivatives held in trading book and banking book.

Changes in fair value (clean price) of derivatives – held for trading are recognised in the income statement line item 'Net trading result'.

Interest income/expense related to financial derivatives is recognised in the income statement line item 'Net interest income' for derivatives held as hedging instruments and in the income statement line item 'Net trading result' for derivatives held for trading.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges complying the conditions of IAS 39. They are presented on the balance sheet line item 'Derivatives - hedge accounting', on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement line item 'Net trading result'. Interest income / expense related to derivatives in fair value hedges is recognised in the income statement line item 'Net interest income'.

Changes in fair value (dirty price) of derivatives in cash flow hedges is reported separately for the effective part, which is recognised in the other comprehensive income line item 'Cash flow hedge' and for the ineffective part, which is recognized in the income statement line item 'Net trading result'. Interest income / expense on derivatives in cash flow hedges is a part of dirty price measurement, which is reported in the line items mentioned above depending on the hedge effectiveness.

## **(iv) Financial assets and liabilities – held for trading**

Financial assets and financial liabilities classified as held for trading comprise of derivatives is described in the note (iii) below and other trading assets and liabilities.

Other trading assets and liabilities include debt securities, as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. They are presented on the balance sheet under the heading 'Financial assets / liabilities – held for trading' as a separate line item 'Other trading assets / liabilities'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and other trading liabilities are recognised in the income statement line item 'Net trading result'. Interest income / expenses related to debt instruments are reported in the income statement line item 'Net interest income'. Dividend income from equity instruments is reported in the income statement line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

## **(v) Financial assets or financial liabilities – at fair value through profit or loss**

Financial assets or financial liabilities classified in this category have been designated at fair value at their initial recognition based on the management's decision.

The Bank uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy of the Bank, the performance of this portfolio is evaluated and regularly reported to the management.

Financial assets designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial assets - at fair value through profit or loss'. Changes in fair value are reported in the income statement line item 'Result from financial instruments designated at fair value through profit or loss'. Interest earned on debt instruments is reported in the income statement line item 'Net interest income'. Dividend income on equity instruments is shown in the income statement line item 'Dividend income'.

The Bank uses the fair value option also for some hybrid financial liabilities in the following cases:

- if such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- if the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk of financial liabilities designated at fair value through profit or loss is calculated in compliance with IFRS 7. It is calculated as a difference between the present value of the liability and its observed market price at the end of the reporting period. The rate used for discounting the liability is the sum of the observed interest rate at the end of the reporting period and the instrument-specific

component of internal rate of return determined at the beginning of the period.

Financial liabilities designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial liabilities – at fair value through profit or loss', further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are reported in the income statement line item 'Result from financial instruments designated at fair value through profit or loss'. Interest incurred is reported in the income statement line item 'Net interest income'.

#### **(vi) Financial assets – available for sale**

Financial assets available-for-sale include debt and equity securities, as well as interests in other entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in market conditions.

Financial assets available for sale are measured at fair value and are disclosed on the balance sheet line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income line item 'Available for sale reserve' until the respective financial asset is disposed of or impaired. If these assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. In case of sale the reclassified cumulative gain or loss is reported in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'. In case of impairment the losses are reported in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Interest income on available-for-sale financial assets is reported in the income statement line item 'Net interest income'. Dividend income from available-for-sale financial assets is reported in the income statement line item 'Dividend income'.

Investments in non-quoted equity instruments are recorded at cost less impairment, if their fair value cannot be measured reliably. This is the case when there is no active market for such investments, the range of reasonable fair value estimates calculated by valuation models is significant and the probabilities of various estimates cannot be reasonably assessed.

#### **(vii) Financial assets – held to maturity**

Financial assets held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank intends and is able to hold until maturity following the approved investment strategy. These financial assets are reported on the balance sheet line item 'Financial assets – held to maturity'. After initial recognition, these securities are measured at amortised cost calculated with regard to any discount, premium and transaction costs, which are integral parts of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement line item 'Net interest income'. Losses arising from impairment of such financial assets are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Occasional realised gains or losses from selling these assets are recognised in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

#### **(viii) Loans and receivables**

The balance sheet line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Moreover, finance lease receivables accounted for using IAS 17 are presented on these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank may not recover substantially all of its initial investment for other reasons than credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Interest income earned on loans and receivables is recognised in the income statement line item 'Net interest income'.

Impairment losses arising from loans and advances are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Finance lease receivables measurement is described in the note 'Leasing'.

#### **(ix) Financial liabilities measured at amortised cost**

Financial liabilities measured at amortised cost are disclosed under the balance sheet line item 'Financial liabilities measured at amortised cost' and further broken down to the following categories: 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

Interest expense incurred by these financial liabilities is reported in the income statement line item 'Net interest income'. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported in the income statement line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

(x) Relationships between balance sheet line items, measurement methods and categories of financial instruments:

| BALANCE SHEET POSITION                                       | MEASUREMENT METHOD |                      |               | FINANCIAL INSTRUMENT CATE-<br>GORY                              |
|--------------------------------------------------------------|--------------------|----------------------|---------------|-----------------------------------------------------------------|
|                                                              | Fair value         | At amortised<br>cost | Other         |                                                                 |
| ASSETS                                                       |                    |                      |               |                                                                 |
| Cash and cash balances                                       |                    | x                    | Nominal value | n/a / Loans and receivables                                     |
| Financial assets - held for trading                          |                    |                      |               |                                                                 |
| Derivatives                                                  | x                  |                      |               | Financial assets at fair value throu-<br>gh profit or loss      |
| Other trading assets                                         | x                  |                      |               | Financial assets at fair value throu-<br>gh profit or loss      |
| Financial assets - at fair value through profit or loss      | x                  |                      |               | Financial assets at fair value throu-<br>gh profit or loss      |
| Financial assets - available for sale                        | x                  |                      |               | Available for sale financial assets                             |
| Financial assets - held to maturity                          |                    | x                    |               | Held to maturity investments                                    |
| Loans and receivables to credit institutions                 |                    | x                    |               | Loans and receivables                                           |
| thereof Finance lease                                        |                    |                      | IAS 17        | n/a                                                             |
| Loans and receivables to customers                           |                    | x                    |               | Loans and receivables                                           |
| thereof Finance lease                                        |                    |                      | IAS 17        | n/a                                                             |
| Derivatives - hedge accounting                               | x                  |                      |               | n/a                                                             |
| LIABILITIES                                                  |                    |                      |               |                                                                 |
| Financial liabilities - held for trading                     |                    |                      |               |                                                                 |
| Derivatives                                                  | x                  |                      |               | Financial liabilities - at fair value<br>through profit or loss |
| Other trading liabilities                                    | x                  |                      |               | Financial liabilities - at fair value<br>through profit or loss |
| Financial liabilities - at fair value through profit or loss | x                  |                      |               | Financial liabilities - at fair value<br>through profit or loss |
| Financial liabilities measured at amortised cost             |                    | x                    |               | Financial liabilities measured at<br>amortised cost             |
| Derivatives - hedge accounting                               | x                  |                      |               | n/a                                                             |

Furthermore, two additional classes of financial instruments not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable loan commitments.

## Reclassification of financial assets

IAS 39 allows various alternatives to reclassify financial assets between the categories of financial instruments and also imposes some restrictions regarding their reclassification. The Bank makes applies a reclassification option only with held-to-maturity financial assets. If a significant credit deterioration of a held-to-maturity financial asset results in the change of the Bank's intention and ability to hold the asset until maturity, it is reclassified to the category of available-for-sale financial assets.

## Derecognition of financial assets and financial liabilities

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

- expiration of the contractual rights to receive cash flows from the asset; or
- transfer of the contractual rights to receive cash flows from the asset; or
- acceptance of an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and the Bank either:
  - has transferred substantially all the risks and rewards connected with the ownership of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or expires.

## Determination of fair value

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.

Details on valuation techniques applied for fair value measurement and fair value hierarchy are disclosed in the note 36.

## Impairment of financial assets and credit risk losses of contingent liabilities

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ('loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Bank uses as a primary indicator of loss event the definition of default in accordance with the CRR (the Regulation EU no. 575/2013 of the European Parliament and of the Council). Default, as a loss event, is deemed to have occurred when whatever of the following events had taken place:

- a client is unlikely to fully repay its credit obligations to the Bank without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any

material credit obligation to the Bank;

- whatever condition or obligation under the contract has been breached by a client, on the basis of which the Bank is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client either in full or its part, charge late payment interests or claim satisfaction of the credit exposure from the means securing such credit obligation);
- the obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, indications of impairment are observable data indicating there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with defaults.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

### (i) Financial assets at amortised cost

At first, the Bank assesses individually significant loans and held-to-maturity securities, whether an objective evidence of impairment exists. If there is no objective evidence of impairment for an individually assessed financial asset, the Bank includes that part of the asset into a group of financial assets with similar credit risk characteristics and assesses them for impairment collectively. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in the collective assessment of impairment.

If an impairment loss has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset takes into account also cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets measured at amortised cost are recognised as loss allowances which decrease the value of financial assets disclosed on the balance sheet. It means that the net carrying amount of a financial asset presented on the balance sheet is the difference between its gross carrying amount and the related cumulative loss allowance. This treatment is applicable for individual and portfolio loss allowances for loans and receivables.

In case of held-to-maturity financial assets accounting treatment and presentation differ based on the type of loss allowances. Portfolio loss allowances covering incurred, but not identified impairment losses decrease the value of these financial assets on the balance sheet. Individual loss allowances covering identified impairment losses directly reduce the carrying amounts of these financial assets.

Reconciliation of changes in loss allowance accounts is presented in the notes 16 and 17. This reconciliation reflects only changes in loss allowances for loans and receivables and portfolio loss allowances for held-to-maturity financial assets.

Impairment losses and their reversals are recognised in the inco-



me statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Loans together with the associated loss allowances are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by the Bank.

If the amount of estimated impairment loss increases or decreases in a subsequent year, the previously recognised impairment loss is increased or reduced respectively by adjusting the allowance account.

## **(ii) Financial assets available for sale**

In case of debt instruments classified as available for sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. The amount of impairment is the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. When impairment is identified, any amount of losses accumulated in the other comprehensive income line item 'Available for sale reserve' is reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

In cases of equity investments classified as available for sale, objective evidence of impairment includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose, 'significant' decline means a market price below 80 % of the acquisition cost and 'prolonged' decline means that a market price is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is an objective evidence of impairment on equity investments, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. For the impaired equity investment, any amount of losses previously recognised in the other comprehensive income line item 'Available for sale reserve' has to be reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses on equity investments are not reversed through the income statement and the increases in the fair value after impairment are recognised directly in other comprehensive income line item 'Available for sale reserve'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

For investments in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall

not be reversed.

## **(iii) Contingent liabilities**

Provisions for credit losses from contingent liabilities (particularly financial guarantees and loan commitments) are reported on the balance sheet line item 'Provisions'. The related expenses or their reversals are reported in the income statement line item 'Other operating result'.

## **Repurchase and reverse repurchase agreements**

Sale and repurchase agreements, also known as 'repo transactions', represent transactions where securities are sold under an agreement to repurchase them at a specified future date. The securities sold as a part of such transactions are not derecognised, i.e. remain on the balance sheet and continue in measurement applicable to the respective financial assets. The reason for this is that the Bank retains substantially all risks and rewards related to the ownership of these securities, which are repurchased when the repo transaction ends. Moreover, the Bank is the beneficiary of all coupons and other income payments received on the transferred securities over the repo transactions period. These payments are remitted to the Bank or are reflected in the repurchase price.

Cash proceeds from the sold securities are recognised on the balance sheet together with a corresponding liability, which is recorded on the balance sheet line item 'Financial liabilities measured at amortised cost', further broken down to 'Deposits from banks' or 'Deposits from customers'. These financial liabilities reflect the transaction's economic substance as a loan to the Bank with the obligation to return cash amount. The difference between the sale and repurchase prices is treated as an interest expense and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

Conversely, the securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the balance sheet in the respective line items as either 'Loans and receivables to credit institutions' or 'Loans and receivables to customers' reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is treated as an interest income and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

## **Securities lending and borrowing**

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the lending duration. The transfer of securities to counterparties via securities lending does not result in derecognition. The Bank, as a lender, retains substantially all risks and rewards related to the ownership of the transferred securities, because they are received at the end of the securities lending transaction. Moreover, the Bank is the beneficiary of all coupons and other income payments received on the transferred securities over the securities lending period.

Conversely, the securities borrowed are not recognised on the balance sheet, unless they are sold to third parties. In this case, the obligation to return the securities is recorded under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

## Embedded derivatives

In the normal course of business, the Bank is involved in debt instruments containing structured features. The structured feature means that a derivative is embedded in a host debt instrument.

Vnorené deriváty sa vykazujú oddelene od pôvodných dlhových nástrojov ak:

- the embedded derivative meets the definition of derivative according IAS 39; and
- the economic characteristics of the derivative are not closely related to the economic characteristics and risks of the host debt instrument; and
- the hybrid instrument is not a financial asset or financial liability held for trading or designated at fair value through profit or loss.

The embedded derivatives, which are separated are accounted for as stand-alone derivatives and reported on the balance sheet under the heading 'Financial assets – held for trading' as a separate line item 'Derivatives'. They are embedded mainly in host issued debt instruments recognised as liabilities. The most typical examples are deposits and bonds issued that contain interest caps, floors or collars, as well as financial instruments linked to non-interest variables such as FX rates, equity and commodity prices and indices or third-party credit risk.

## Hedge accounting

The Bank utilises derivative instruments to manage its exposure to interest rate risk and foreign currency risk. At inception of a hedge transaction, the Bank formally documents the relationship between a hedged item and a hedging instrument, including the nature of risk, the strategy and the objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows during the period attributable to the hedged risk for which the hedge is designated are expected to be offset by the fair value changes of the hedging instrument in a range of 80 % to 125 %. The hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. The Bank defines specific conditions for particular types of hedges and for effectiveness testing in internal hedge policy.

The Bank uses fair value hedges to reduce market risk. For qualifying and designated fair value hedges, the change in fair value (clean price) of the hedging instrument is recognised in the income statement line item 'Net trading result'. The change in fair value of the hedged item attributable to the hedged risk is also recognised in the income statement line item 'Net trading result' and adjusts the carrying amount of the hedged item. Interest income and expense on hedging derivatives are recognised in the income statement line item 'Net interest income'.

The hedge relationship is terminated, when the hedging instrument expires, is sold, terminated or exercised, or if the hedge

no longer meets the criteria for hedge accounting. In this case, the fair value adjustment of the hedged item is amortised in the income statement line item 'Net interest income' until maturity of the financial instrument.

## Offsetting financial instruments

Financial assets and financial liabilities are offset and their net amount is presented on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle them on a net basis or to realise the asset and settle the liability simultaneously.

## Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The depreciation period and method are reviewed at least at each financial year-end and adjusted if necessary. Depreciation is recognised in the income statement line item 'Depreciation and amortisation'. Impairment losses on property and equipment is recognized in the income statement line item 'Other operating result'. Land is not depreciated.

The estimated useful lives are as follows:

| Type of property and equipment | Useful life<br>in years 2016 and 2017 |
|--------------------------------|---------------------------------------|
| Own buildings and structures   | 30 years                              |
| Rented premises                | per contract                          |
| Office furniture and equipment | 4 – 6 years                           |
| Computer hardware              | 4 years                               |
| Passenger cars                 | 4 years                               |
| Fixture and fittings           | 6 – 12 years                          |

Property and equipment is derecognised on its disposal or when no future economic benefits are expected from its use. Gain or loss arising on disposal of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement line item 'Other operating result'.

## Investment property

Investment property is a property (land and buildings or part of them) held for the purpose of earning rental income or for capital appreciation. If such a property is partially used by the Bank, it is considered as investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where their future use is expected to be the same as for investment property, are also classified in this category.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet as a separate line item 'Investment properties'.

Depreciation of investment property is recognised in the income statement line item 'Depreciation and amortisation' and is calculated using the straight-line method over an estimated useful life. The useful life of investment property is identical to that of buildings reported under property and equipment. Rental income is recognised in the income statement line item 'Rental income from investment properties'.

## Intangible assets

The Bank's intangible assets include mostly computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that future economic benefits attributable to it will flow to the Bank.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement line item 'Depreciation and amortisation'. Intangible assets with infinite lives are not amortised.

The estimated useful lives are as follows:

| Type of intangible assets                    | Useful life<br>in years 2016 and 2017 |
|----------------------------------------------|---------------------------------------|
| Core banking system and related applications | 8 years                               |
| Computer software                            | 4 – 8 years                           |

## Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is performed at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of cash-generating unit ('CGU') to which the asset belongs. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of those from other assets or groups of assets.

When an asset is tested for impairment annually or if any indication of impairment exists, the Bank estimates its recoverable amount. The recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of the asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

At each reporting date, assessment of non-financial assets is performed as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. However, impairment on goodwill cannot be reversed.

Impairments and their reversals are recognised in the income statement line item 'Other operating result'.

## Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements are classified as operating leases.

### (i) The Bank as a lessor

In case of finance lease, the Bank recognises a receivable from the lessee on the balance sheet line items 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement line item 'Net interest income'. The Bank provides finance lease since the merger with its former subsidiary Leasing Slovenskej sporiteľne, a.s. in the year 2015.

In case of properties provided for rent, the Bank recognises the respective asset on the balance sheet line item 'Investment properties' and uses the depreciation method applicable for this type of asset. Rental income is recognised on a straight-line basis over the lease term in the income statement line item 'Rental income from investment properties'.

### (ii) The Bank as a lessee

The Bank has not entered into any leases meeting the conditions of finance lease.

Operating lease payments are recognised on a straight-line basis

over the lease term in the income statement line item 'Other administrative expenses'.

## Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reported on the balance sheet line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments), as well as provisions for litigation and restructuring. Expense or income related to provisions are reported in the income statement line item 'Other operating result'. Information on provisions are detailed in the note 26.

## Defined employee benefit plans

Defined employee benefit plans operated by the Bank are for pensions and working anniversary benefits. According to IAS 19 categorisation, perspective pension benefits qualify as post-employment defined benefits plans, whereas working anniversary benefits are other long-term employee benefits.

Obligations resulting from the defined employee benefit plans are reported on the balance sheet line item 'Provisions'. Future obligations are determined based on an actuarial expert opinion using the projected unit credit method. The calculation takes into account various assumptions known as at the balance sheet date, such as discount rates, expected rates of return on assets, future salary increases, future pension increases, fluctuation, mortality rates and retirement age.

The key assumptions used in actuarial calculations are disclosed in the note 26.

The employee benefit costs are determined by an actuarial valuation using the projected unit credit method as at the balance sheet date. They are measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the working anniversary benefits are charged to the income statement line item 'Personnel expenses'. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in the equity line item 'Remeasurement of net liability of defined pension plans' in the period in which they occur.

## Taxes

### (i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

### (ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced by the extent that it is no longer probable that a sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that a future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date.

Deferred tax relating to the items recognised in the other comprehensive income is also recognised in the other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

## Dividends on ordinary shares

Dividends on ordinary shares are deducted from the equity when they are paid to the Bank's shareholders.

## Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of guarantees and letters of credit. According to IAS 39, financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss incurred in case the specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Bank is a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as a collateral when determining impairment of the guaranteed asset.

The Bank as a guarantor recognises the financial guarantee as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. Subsequent to initial recognition, the financial

guarantee contract is reviewed whether a provision is required according IAS 37. Such provisions are recorded on the balance sheet line item 'Provisions' and the related income or expenses are recognised in the income statement line item 'Other operating result'. The premium received for a financial guarantee issued is recognised on a straight-line basis over the life of the guarantee in the income statement line item 'Net fee and commission income'.

### **Fiduciary assets**

The Bank provides trust and other fiduciary services that result in holding or investing of assets on behalf of its clients. The assets held in a fiduciary capacity are not reported in these financial statements, as they are not the assets of the Bank.

### **Recognition of income and expenses**

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Bank and the amount of revenue can be measured reliably.

The description and recognition criteria of the income statement line items are as follows:

#### **(i) Net interest income**

Interest income or expense is recognised using the effective interest rate ('EIR') method. The calculation of EIR includes origination fees resulting from the lending business and transaction costs directly attributable to the instrument (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income on individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of impairment loss measurement.

Interest income includes interest income on cash balances, loans and receivables to credit institutions and customers, bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from banks and customers, debt securities issued and other financial liabilities in all categories.

Net interest income includes interest on non-derivative trading assets and liabilities, as well as on derivative financial instruments held in the banking book.

In addition, net interest cost on defined benefits obligations (pension and jubilee) is recognised in net interest income.

#### **(ii) Net fee and commission income**

The Bank earns fee and commission income from a diverse range of services provided to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include fees from lending business, payment services, securities transactions, as well as

commissions from collective investment, custody and insurance products.

Fees earned for providing transaction services are recognised upon completion of the underlying transaction. These fees include fees for arranging acquisition of securities and purchase or sale of a business.

#### **(iii) Dividend income**

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

This line item includes dividends from shares and other equity-related securities in all portfolios, as well as income from other investments in companies classified as available for sale. It also contains dividends from subsidiaries, associates or joint ventures.

#### **(iv) Net trading and fair value result**

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments, as well as foreign exchange gains and losses.

In addition, net trading result also contains interest income or expense on derivative financial instruments held in the trading book. However, interest income or expenses on derivative financial instruments held in the banking book are reported in the income statement line item 'Net interest income'.

Net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions.

The fair value result relates to changes in the clean price of assets and liabilities designated at fair value through profit and loss.

#### **(v) Rental income from investment properties**

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

#### **(vi) Personnel expenses**

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies.

This line item also includes service costs for defined benefit obligations (pension and jubilee) and the actuarial remeasurements of jubilee obligations.

#### **(vii) Other administrative expenses**

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, expenditures for legal and other consultants, advertising and

marketing, as well as sundry other administrative expenses.

Furthermore this line item contains deposit insurance fund contributions.

#### **(viii) Depreciation and amortisation**

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

#### **(ix) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net**

This line item includes selling and other derecognition gains or losses on loans and receivables, financial assets available-for-sale, financial assets held-to-maturity and financial liabilities measured at amortised cost. However, if such gains or losses relate to individually impaired financial assets, they are reported in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

#### **(x) Net impairment loss on financial assets not measured at fair value through profit or loss**

Net impairment losses on financial assets comprise of impairment losses and reversals of impairment on loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Net impairment losses relate to allowances recognised on individual and portfolio (incurred but not reported) level.

In addition, direct write-offs and recoveries on written-off loans are reported on this line item.

#### **(xi) Other operating result**

Other operating result includes all income and expenses, which are not presented within operating result of the Bank.

This line item includes results on the sale, impairment losses or reversal of impairment related to non-financial assets, such as property and equipment and intangible assets. Any impairment losses on goodwill are presented as other operating result.

In addition, this line item includes gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, as well as the related impairment losses or their reversals.

Other operating result also contains expenses for allocations to provisions, income from their release and other taxes.

The significant items reported within other operating result are legally imposed levies related to the banking activities:

- banking tax, and
- contribution to the National Resolution Fund.

### **Renegotiated loans**

The Bank seeks to restructure loans, rather than to repossess collaterals, where possible. The restructuring involves extending of payment arrangements and/or agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR calculated before the modification of terms. These loans continue to be subject to individual or collective impairment assessment. The renegotiated loan is no longer considered past due. Management of the Bank continually reviews renegotiated loans to ensure that all criteria are met and future payments are likely to occur.

### **Collateral repossessed**

The Bank's policy is to decide on a beneficial treatment of repossessed assets, whether it should be used for internal operations or should be sold. The assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured assets. The assets determined to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

### **Collateral valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, guarantees / letters of credit, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of a collateral is generally assessed, at a minimum, at inception and according to the Bank's reporting schedule. To the extent possible, the Bank uses active market data for valuation of the financial assets held as collaterals. Other financial assets, which do not have a readily determinable market value, are valued using models. Non-financial collaterals, such as real estates, are valued based on data provided by third parties, e.g. mortgage brokers, housing price indices, and other independent sources.

### **e) Significant accounting judgements, assumptions and estimate**

When preparing these financial statements, management has applied a number of judgements, estimates and assumptions about recognition of assets, liabilities, income and expenses. The estimates and assumptions used are based on a historical experience and other factors, such as planning, forecasts and expectations of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these estimates and assumptions the actual results could lead to adjustments of particular line items of the financial statements in the future periods. The most significant uses of judgements, assumptions and estimates are as follows:

#### **Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities



recorded on the balance sheet cannot be derived from active markets, they are determined by a variety of valuation techniques using mathematical models. Inputs to these models are derived from observable market data. Where observable market data is not available, a judgement is required to establish fair value. The disclosures for fair values of financial instruments, the fair value hierarchy and valuation models are presented in the note 36.

### **Impairment of financial assets**

The Bank reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. For determining an impairment loss it is required to assess whether there is an objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of the future cash flows.

The disclosures concerning impairment are provided in the note 35. The development of loan allowances is described in the notes 8, 16 and 17.

#### **(i) Individual assessment of impairment**

Loans and receivables to credit institutions, sovereigns and corporate customers are generally considered by the Bank as individually significant and are analysed on an individual basis regardless materiality limits.

Loans and receivables to retail customers with exposures exceeding 200 ths. Eur are generally considered by the Bank as individually significant and are analysed on an individual basis.

For impairment classification, the Bank uses expected loss threshold of 250 Eur per client. Losses under this amount are considered to be immaterial.

Loans and receivables with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments and proceeds from collateral. Impairment amount is determined by the difference between the gross carrying amount of the loan and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

#### **(ii) Portfolio assessment of impairment**

For the purpose of collective assessment of impairment, the financial assets are grouped on the basis of the Bank's internal credit rating system.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of conditions in the historical period that do not exist

currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between the loss estimates and the actual loss experience.

### **Deferred tax assets**

Deferred tax assets are recognised with respect of tax losses and deductible temporary differences. They are recorded to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. A judgement is required to determine the amount of deferred tax assets that can be recognised, based on likely timing and level of future taxable profits, together with future tax planning strategies.

## **f) Application of new and amended IAS / IFRSS**

The Bank has adopted all the standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), as adopted by the European Union, which are valid for the current reporting period and relevant for its business. The following standards, interpretations and their amendments are applicable for the first time in the year 2017:

#### **Effective standards and interpretations**

The following standards and amendments have become mandatory for the financial year 2017 and were endorsed by EU:

#### **Amendments to IAS 7: Disclosure initiative**

#### **Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses**

#### **Annual improvements to IFRSs 2014 – 2016 cycle (amendments to IFRS 12)**

Application of the above mentioned amendments did not have a significant impact on Bank's accounting policies, financial statements or its performance.

### **Standards and interpretations not yet effective**

(i) The following standards, amendments and interpretations are not yet endorsed by the EU:

**Sale or contribution of assets between an investor and its associate or joint venture – amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.



Application of this amendment is not expected to have a significant impact on the Bank's financial statements.

**Amendments to IFRS 15: Revenue from contracts with customers** (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018)

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

**Annual improvements to IFRSs 2014 – 2016 cycle – amendments to IFRS 1 and IAS 28** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)

IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organization, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

**Transfers of investment property – amendments to IAS 40** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS

40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

**IFRIC 23: Uncertainty over income tax treatments** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the interpretation.

Application of this IFRIC is not expected to have a significant impact on the Bank's financial statements.

**Prepayment features with negative compensation – amendments to IFRS 9** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing

guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

**Long-term interests in associates and joint ventures – amendments to IAS 28** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

Other amendments that do not have direct impact on the Bank's operations and were considered as not relevant:

**Amendments to IFRS 2: Share-based payment** (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)

**Applying IFRS 9: Financial instruments with IFRS 4: Insurance contracts – amendments to IFRS 4** (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach)

**IFRS 17: Insurance contracts** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)

**FRIC 22: Foreign currency transactions and advance consideration** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)

**Annual improvements to IFRSs 2015 – 2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

(ii) The following standards, amendments and interpretations are already endorsed by the EU:

**IFRS 9: Financial instruments** (IASB effective date: 1 January 2018)

## The standard

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both of the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to financial assets that meet condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income. IFRS 9 provides an option to apply this requirement early, however the Bank does not intend to make use of this option.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected credit losses. Lifetime expected credit losses are to be recognised for all instruments whose credit risk increases significantly after initial recognition. Furthermore the standard clarifies the rules for accounting for gains and losses resulting from modification of contractual conditions of financial assets.

The objective of the new hedge accounting model is to reflect in accounting actual risk management practices of entities hedging risks. For the Bank, the following areas are expected to be relevant to achieve this objective: only the prospective effectiveness test is required and the retrospective effectiveness test with the 80 % 125 % corridor was abandoned; when options are used as hedging instruments, the volatility of the time value is recognised through OCI rather than profit or loss; the possibility of hedging synthetic items containing derivatives.

IFRS 9 provides an accounting policy choice in the area of hedge accounting. Thus, upon adoption of IFRS 9, entities can either (a) start with full application of the hedge accounting requirements of

IFRS 9, (b) start with limited application of the hedge accounting requirements of IFRS 9 by continuing to apply IAS 39 to the specific case of fair value hedges of interest rate exposure of a portfolio of financial assets or financial liabilities, or (c) continue with full application of the hedge accounting requirements of IAS 39. The Bank plans to implement the third choice. However, some actions are expected to be necessary in order to address additional disclosures that will be required based on IFRS 7 after adoption of IFRS 9.

Based on the accounting policy choice embedded into the transition requirements of IFRS 9, the Bank will not restate comparative information upon initial application of IFRS 9. Instead, the one-off impact from initial application of IFRS 9 will be reflected in the opening equity as of the initial application date.

### Implementation of the standard

Preparation works for the transition to IFRS 9 started in early 2015, when the IFRS 9 implementation project was officially set up.

During 2016, the most efforts of the Bank within the project have been refocused on implementation topics, in consideration of the wide range of the impacted internal policies, procedures, working instructions, processes, IT systems and applications.

Throughout the implementation work, but also in the light of the developing market practice and of the guidance issued by the relevant authoritative bodies and the global accounting consultancies, a limited number of business requirements have been revisited and/or subject to further refinement and additional clarification. This refinement process continues throughout the year 2017 and the early part of 2018. Local policies and procedures is in process of being updated and formally approved accordingly.

During 2017 the Bank runs newly implemented IFRS 9 functionalities in parallel to the outgoing IAS 39 production processes. Such a „parallel run“ was primarily meant to ensure the technical readiness for transiting to IFRS 9 on 1 January 2018, but also the plausibility and the traceability of the transition impact on the date of initial application.

The current status of IFRS 9 implementation project at the Bank enables quantitative financial impacts of IFRS 9 in the area of classification and measurement. In the area of impairment the proposed methodology is currently subject to internal and external reviews and adjustments drawing on experiences during the parallel run. However the Bank provides quantitative financial impact of IFRS 9 also in this area.

### Quantitative financial impact of the standard

The main drivers for changes in measurement categories resulting from new IFRS 9 classification and measurement requirements for financial assets are:

- Reclassification of debt instruments in amount of 972,7 mil. Eur that are currently classified as financial assets available for sale to amortized cost measurement category according to IFRS 9 due to fulfillment of held-to-collect business model. Such debt instruments also meets SPPI criteria for such measurement.
- Reclassification of two debt instruments in amount of 20,4 mil. Eur that are currently classified as financial assets held to maturity to fair value through profit or loss measurement category according to IFRS 9 due contractual features that do not meet criteria of solely payment of principal and interest.
- Reclassification of equity instruments in amount of 3,0 mil. Eur that are currently classified as available for sale to fair value through profit or loss measurement category according to IFRS 9 due to application of this standard.

The following table presents original measurement categories in accordance with IAS 39 and new measurement categories under IFRS 9:

| EUR ths.                                                   | Original classification under IAS 39 |                                               | New classification under IFRS 9              | Original carrying amount under IAS 39 | New carrying amount under IFRS |
|------------------------------------------------------------|--------------------------------------|-----------------------------------------------|----------------------------------------------|---------------------------------------|--------------------------------|
|                                                            | Portfólio                            | Measurement method                            | Measurement method                           |                                       |                                |
| Financial assets                                           |                                      |                                               |                                              |                                       |                                |
| Cash and cash balances                                     | Amortised cost                       | AC                                            | Amortised cost                               | 424 229                               | 424 229                        |
| Derivatives                                                | Held-for-trading                     | FVTPL                                         | Held-for-trading (FVTPL)                     | 36 484                                | 36 484                         |
| Derivatives - hedge accounting                             | Hedge accounting                     | FV                                            | Hedge accounting                             | 6 761                                 | 6 761                          |
| Loans and recivables to credit institutions                | Loans and receivables                | AC                                            | Amortised cost                               | 177 616                               | 177 616                        |
| Loans and recivables to custo-mers                         | Loans and receivables                | AC                                            | Amortised cost                               | 11 613 219                            | 11 615 016                     |
| Loans and recivables to custo-mers                         | Loans and receivables                | Finance Lease                                 | Finance Lease                                | 76 941                                | 76 941                         |
| Loans and recivables to customers                          | Loans and receivables                | Trade receivab-les and other receivables (AC) | Trade receivables and other receivables (AC) | 68 789                                | 68 789                         |
| Financial assets - available for sale (Debt instruments)   | AFS                                  | FVTOCI                                        | Amortised cost                               | 972 734                               | 894 339                        |
| Financial assets - available for sale (Equity instruments) | AFS                                  | FVTOCI                                        | FVTPL                                        | 3 077                                 | 3 077                          |
| Financial assets - available for sale (Equity instruments) | AFS                                  | FVTOCI                                        | FVTOCI                                       | 44 808                                | 44 808                         |
| Financial assets - held to maturity                        | Held-to-maturity                     | AC                                            | Amortised cost                               | 2 624 336                             | 2 624 335                      |
| Financial assets - held to maturity                        | Held-to-maturity                     | AC                                            | Mandatorily at FVTPL                         | 20 065                                | 20 406                         |
| Financial assets - at fair value through profit at loss    | FV option                            | FVTPL                                         | Mandatorily at FVTPL                         | 5 602                                 | 5 602                          |
| Total financial assets                                     |                                      |                                               |                                              | 16 074 663                            | 15 998 403                     |
| Financial liabilities                                      |                                      |                                               |                                              |                                       |                                |
| Derivatives                                                | Held-for-trading                     | FVTPL                                         | Held-for-trading (FVTPL)                     | 33 344                                | 33 344                         |
| Derivatives - hedge accounting                             | Hedge accounting                     | FV                                            | Hedge accounting                             | 42 100                                | 42 100                         |
| Financial liabilities - measured at amortised cost         | AC                                   | AC                                            | Amortised cost                               | 14 628 022                            | 14 628 022                     |
| Total financial liabilities                                |                                      |                                               |                                              | 14 703 466                            | 14 703 466                     |

The following table reconciles the carrying amounts according IAS 39 to the carrying amounts according IFRS 9 on transition to IFRS 9 on 1 January 2018 (only relevant changes are presented):

| EUR ths.<br>Measurement category                                                                                         | IAS 39<br>carrying<br>amount<br>as<br>at 31.12.2017 | Reclassificati-<br>ons +/- | Remea-<br>surement<br>+/- (effects<br>of both reval-<br>uation and<br>impairment<br>changes) | IFRS 9<br>carrying<br>amount<br>as at 1.1.2018 | Retained ear-<br>nings effects<br>+/- | OCI effects +/- |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------|------------------------------------------------|---------------------------------------|-----------------|
| Amortised cost                                                                                                           | 14 928 256                                          | -                          | -                                                                                            | 14 928 256                                     | -                                     | -               |
| <b>Additions:</b>                                                                                                        |                                                     |                            |                                                                                              |                                                |                                       |                 |
| from IAS 39 FVTOCI (AFS)                                                                                                 | -                                                   | 972 734                    | (78 395)                                                                                     | 894 339                                        | 281                                   | 78 115          |
| from IAS 39 AC (L&R, HTM) - impairment remea-<br>surement)                                                               | -                                                   | -                          | 1 795                                                                                        | 1 795                                          | (1 795)                               | -               |
| <b>Subtractions:</b>                                                                                                     |                                                     |                            |                                                                                              |                                                |                                       |                 |
| to IFRS 9 Mandatorily at FVTPL (IAS 39: HTM)                                                                             | -                                                   | (20 065)                   | -                                                                                            | (20 065)                                       | -                                     | -               |
| Total change to Amortised cost                                                                                           | -                                                   | 952 669                    | (76 600)                                                                                     | 876 069                                        | (1 515)                               | 78 115          |
| <b>Amortised cost balances, reclassification and<br/>remeasurement as at 1.1.2018</b>                                    | <b>14 928 256</b>                                   | <b>952 669</b>             | <b>(76 600)</b>                                                                              | <b>15 804 325</b>                              | <b>(1 515)</b>                        | <b>78 115</b>   |
| <b>Fair value through other comprehensive income</b>                                                                     | <b>1 020 620</b>                                    | <b>-</b>                   | <b>-</b>                                                                                     | <b>1 020 620</b>                               | <b>-</b>                              | <b>-</b>        |
| <b>Fair value through other comprehensive income<br/>- debt instruments</b>                                              | <b>972 734</b>                                      | <b>-</b>                   | <b>-</b>                                                                                     | <b>972 734</b>                                 | <b>-</b>                              | <b>-</b>        |
| <b>Subtractions:</b>                                                                                                     |                                                     |                            |                                                                                              |                                                |                                       |                 |
| to IFRS 9 AC (IAS 39: AFS)                                                                                               | -                                                   | (972 734)                  | -                                                                                            | (972 734)                                      | -                                     | -               |
| <b>Subtotal change to Fair value through other<br/>comprehensive income - debt instruments</b>                           | <b>-</b>                                            | <b>(972 734)</b>           | <b>-</b>                                                                                     | <b>(972 734)</b>                               | <b>-</b>                              | <b>-</b>        |
| <b>Fair value through other comprehensive income<br/>- equity instruments</b>                                            | <b>47 886</b>                                       | <b>-</b>                   | <b>-</b>                                                                                     | <b>47 886</b>                                  | <b>-</b>                              | <b>-</b>        |
| <b>Subtractions:</b>                                                                                                     |                                                     |                            |                                                                                              |                                                |                                       |                 |
| to IFRS 9 FVTPL (IAS 39: AFS)                                                                                            | -                                                   | (3 077)                    | -                                                                                            | (3 077)                                        | -                                     | -               |
| <b>Subtotal change to Fair value through other<br/>comprehensive income - equity instruments</b>                         | <b>-</b>                                            | <b>(3 077)</b>             | <b>-</b>                                                                                     | <b>(3 077)</b>                                 | <b>-</b>                              | <b>-</b>        |
| <b>Total change to Fair value through other<br/>comprehensive income</b>                                                 | <b>-</b>                                            | <b>(975 812)</b>           | <b>-</b>                                                                                     | <b>(975 812)</b>                               | <b>-</b>                              | <b>-</b>        |
| <b>Fair value through other comprehensive income<br/>balances, reclassification and remeasurement<br/>as at 1.1.2018</b> | <b>1 020 620</b>                                    | <b>(975 812)</b>           | <b>-</b>                                                                                     | <b>44 808</b>                                  | <b>-</b>                              | <b>-</b>        |
| <b>Fair value through Profit or Loss</b>                                                                                 | <b>42 085</b>                                       | <b>-</b>                   | <b>-</b>                                                                                     | <b>42 085</b>                                  | <b>-</b>                              | <b>-</b>        |
| <b>Additions:</b>                                                                                                        |                                                     |                            |                                                                                              |                                                |                                       |                 |
| from IAS 39 AC (HTM, IFRS 9: Mandatorily at<br>FVTPL)                                                                    | -                                                   | 20 065                     | 341                                                                                          | 20 406                                         | (341)                                 | -               |
| from IAS 39 FVTOCI (Equity instruments: AFS)                                                                             | -                                                   | 3 077                      | -                                                                                            | 3 077                                          | (2 393)                               | 2 393           |
| <b>Total change to Fair value through Profit or Loss</b>                                                                 | <b>-</b>                                            | <b>23 143</b>              | <b>341</b>                                                                                   | <b>23 483</b>                                  | <b>(2 734)</b>                        | <b>2 393</b>    |
| <b>Fair value through Profit or Loss balances, rec-<br/>lassification and remeasurement as at 1.1.2018</b>               | <b>42 085</b>                                       | <b>23 143</b>              | <b>341</b>                                                                                   | <b>65 569</b>                                  | <b>(2 734)</b>                        | <b>2 393</b>    |
| <b>Total Financial balances, reclassification and<br/>remeasurement as at 1.1.2018</b>                                   | <b>15 990 961</b>                                   | <b>-</b>                   | <b>(76 259)</b>                                                                              | <b>15 914 702</b>                              | <b>(4 249)</b>                        | <b>80 508</b>   |

There was no change in classification or remeasurement in connection to implementation of IFRS 9 for financial liabilities.

The following table presents impact of IFRS 9 on deferred tax assets and deferred tax liabilities:

| EUR ths.                                  | Closing balance as at<br>31.12.2017 (IAS 39) | Opening balance as at<br>1.1.2018 (IFRS 9) | Retained earnings<br>effects +/- | OCI effects +/- |
|-------------------------------------------|----------------------------------------------|--------------------------------------------|----------------------------------|-----------------|
| Changes in deferred tax assets (DTA)      | 33 758                                       | 50 191                                     | (474)                            | 16 907          |
| Changes in deferred tax liabilities (DTL) | -                                            | -                                          | -                                | -               |

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017 to opening expected credit losses allowance determined according to IFRS 9 as at 1 January 2018:

| Eur tis.                                                            | 31.12.2017<br>(IAS 39/IAS 37) | Reclassifications<br>+/- | Remeasurement +/- | 1.1.2018<br>(IFRS 9) |
|---------------------------------------------------------------------|-------------------------------|--------------------------|-------------------|----------------------|
| Debt instruments at AC                                              | (360 929)                     | 15                       | 1 651             | (359 263)            |
| Debt instruments at FVTOCI                                          | -                             | -                        | -                 | -                    |
| Finance lease receivables                                           | (737)                         | -                        | -                 | (737)                |
| Trade and other receivables                                         | (3 453)                       | -                        | -                 | (3 453)              |
| Off-balance sheet exposures (loan commitments and guarantees given) | (15 091)                      | -                        | 721               | (14 369)             |
| <b>Total</b>                                                        | <b>(380 209)</b>              | <b>15</b>                | <b>2 372</b>      | <b>(377 823)</b>     |

Into Stage 1 belong financial instruments without significant increase in credit risk since initial recognition for which 12-month ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and effective interest rate is applied to gross carrying amount for the calculation of interest income.

Into Stage 2 belong financial instruments with significant increase in credit risk since initial recognition for which lifetime ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and effective interest rate is applied to gross carrying amount for the calculation of interest income.

Into Stage 3 belong financial instruments with significant increase in credit risk since initial recognition and such instrument becomes credit-impaired for which lifetime ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and effective interest rate is applied to amortised cost for the calculation of interest income.

Into POCI belong financial instruments that were purchased or originated as credit impaired for which lifetime ECLs (probability-weighted estimate of credit loss) is used for calculation of impairment loss and credit-adjusted effective interest rate is applied to amortised cost for the calculation of interest income.



The following table discloses split of financial instruments per stages:

| EUR ths.                     | Stage 1           | Stage 2         | Stage 3          | POCI            | Total             |
|------------------------------|-------------------|-----------------|------------------|-----------------|-------------------|
| <b>Gross carrying amount</b> |                   |                 |                  |                 |                   |
| Debt securities              | 3 519 134         | -               | -                | -               | 3 519 134         |
| Loans and advances           | 11 252 913        | 434 962         | 347 031          | 116 530         | 12 151 436        |
| Finance lease receivables    | 76 815            | -               | 863              | -               | 77 678            |
| Trade and other receivables  | 68 988            | -               | 3 254            | -               | 72 242            |
| <b>Total</b>                 | <b>14 917 850</b> | <b>434 962</b>  | <b>351 148</b>   | <b>116 530</b>  | <b>15 820 490</b> |
| <b>Loss allowances</b>       |                   |                 |                  |                 |                   |
| Debt securities              | (459)             | -               | -                | -               | (459)             |
| Loans and advances           | (35 603)          | (39 736)        | (223 926)        | (59 539)        | (358 804)         |
| Finance lease receivables    | (196)             | -               | (541)            | -               | (737)             |
| Trade and other receivables  | (247)             | -               | (3 206)          | -               | (3 453)           |
| <b>Total</b>                 | <b>(36 505)</b>   | <b>(39 736)</b> | <b>(227 673)</b> | <b>(59 539)</b> | <b>(363 453)</b>  |
| <b>Net carrying amount</b>   |                   |                 |                  |                 |                   |
| Debt securities              | 3 518 675         | -               | -                | -               | 3 518 675         |
| Loans and advances           | 11 217 310        | 395 226         | 123 105          | 56 991          | 11 792 632        |
| Finance lease receivables    | 76 619            | -               | 322              | -               | 76 941            |
| Trade and other receivables  | 68 741            | -               | 48               | -               | 68 789            |
| <b>Total</b>                 | <b>14 881 345</b> | <b>395 226</b>  | <b>123 475</b>   | <b>56 991</b>   | <b>15 457 037</b> |

The following table discloses split of off-balance sheet exposures per stages:

| EUR ths.                                          | Stage 1            | Stage 2         | Stage 3        | POCI            | Total              |
|---------------------------------------------------|--------------------|-----------------|----------------|-----------------|--------------------|
| <b>Off balance exposures</b>                      |                    |                 |                |                 |                    |
| Financial guarantees given                        | (320 510)          | (3 557)         | (980)          | (4 692)         | (329 739)          |
| Loan commitments given                            | (1 930 121)        | (23 368)        | (1 681)        | (55 373)        | (2 010 543)        |
| <b>Total</b>                                      | <b>(2 250 631)</b> | <b>(26 925)</b> | <b>(2 661)</b> | <b>(60 065)</b> | <b>(2 340 282)</b> |
| <b>Provisions for off-balance sheet exposures</b> |                    |                 |                |                 |                    |
| Financial guarantees given                        | (1 114)            | (245)           | (69)           | (683)           | (2 111)            |
| Loan commitments given                            | (3 374)            | (957)           | (374)          | (7 553)         | (12 258)           |
| <b>Total</b>                                      | <b>(4 488)</b>     | <b>(1 202)</b>  | <b>(443)</b>   | <b>(8 236)</b>  | <b>(14 369)</b>    |

#### Disclosure regarding the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds

The following information fulfills the disclosure requirement in accordance with guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds.

The Bank does not apply the transitional arrangements

specified in Article 473a for IFRS 9.

The Bank's own funds, capital and leverage ratios as at 1 January 2018 already reflect the full impact of IFRS 9.

The Bank's own funds decreased by Eur 58,6 mil. as a consequence of the above disclosed changes due to IFRS 9 implementation as at 1 January 2018. This impact has only a minor effect on capital ratio which decreased by 0,82 %. The Bank's total capital ratio as at 1 January 2018 was 17,78 %.

The Bank's leverage ratio as at 1 January 2018 is 7 %, which is lower by 0,34 % as a consequence of IFRS 9 implementation.

**IFRS 15: Revenue from contracts with customers** (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018)

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on the Bank's financial statements.

**IFRS 16: Leases** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

In 2017 the Bank analyses existing systems and their adaption to the IFRS 16 requirements. The requirements will be implemented throughout 2018. Estimates of the impact on the Bank's financial statements are expected to be available in the year 2018.

## C. NOTES

### 1 Net interest income

| EUR ths.                                                | 2016            | 2017            |
|---------------------------------------------------------|-----------------|-----------------|
| <b>Interest income</b>                                  |                 |                 |
| Financial assets - at fair value through profit or loss | 87              | (3)             |
| Financial assets - available for sale                   | 28 637          | 23 483          |
| Loans and receivables                                   | 395 289         | 370 971         |
| Held-to-maturity investments                            | 95 446          | 87 013          |
| Derivatives - hedge accounting, interest rate risk      | (8 572)         | (9 145)         |
| Other assets                                            | 15              | -               |
| <b>Total</b>                                            | <b>510 902</b>  | <b>472 319</b>  |
| <b>Interest expenses</b>                                |                 |                 |
| Financial liabilities measured at amortised cost        | (49 673)        | (33 498)        |
| Derivatives - hedge accounting, interest rate risk      | 837             | 860             |
| Other liabilities                                       | (78)            | (71)            |
| <b>Total</b>                                            | <b>(48 914)</b> | <b>(32 709)</b> |
| <b>Net interest income</b>                              | <b>461 988</b>  | <b>439 610</b>  |

Interest income for the year 2017 included interests related to impaired financial assets in the amount of 8,2 mil. Eur (2016: 8,8 mil. Eur).

Interest income from hedging instruments relates to the hedged items presented in the line item 'Financial assets – available for sale'. Interest expense from hedging instruments relates to the hedged items presented in the line item 'Financial liabilities measured at amortised cost'.

Negative interest from financial assets for the year 2017 amounted 0,3 mil. Eur (2016: 0,5 mil. Eur). Negative interest from financial liabilities for the year 2017 amounted 1,5 mil. Eur (2016: 0,5 mil. Eur). These amounts related to the interbank business only.

## 2 Net fee and commission income

| EUR ths.                                       | 2016            | 2017            |
|------------------------------------------------|-----------------|-----------------|
| <b>Fee and commission income</b>               |                 |                 |
| Securities                                     | 8 013           | 10 230          |
| Transfer orders                                | 7 686           | 9 238           |
| Other                                          | 327             | 992             |
| Custody                                        | 732             | 718             |
| Collective investment                          | 391             | 497             |
| Other                                          | 341             | 221             |
| Payment services                               | 94 935          | 91 464          |
| Card business                                  | 39 545          | 36 066          |
| Others                                         | 55 390          | 55 398          |
| Customer resources distributed but not managed | 12 492          | 16 699          |
| Collective investment                          | 504             | 570             |
| Insurance products (as agent)                  | 11 959          | 15 658          |
| Other                                          | 29              | 472             |
| Lending Business                               | 26 435          | 16 332          |
| Loan commitments given                         | 592             | 87              |
| Guarantees given                               | 2 865           | 2 943           |
| Other lending business                         | 22 977          | 13 301          |
| Other                                          | 1 012           | 512             |
| <b>Total</b>                                   | <b>143 619</b>  | <b>135 955</b>  |
| <b>Fee and commission expense</b>              |                 |                 |
| Securities                                     | (428)           | (837)           |
| Other                                          | (428)           | (837)           |
| Custody                                        | (494)           | (525)           |
| Payment services                               | (12 595)        | (12 240)        |
| Card business                                  | (12 012)        | (11 636)        |
| Others                                         | (583)           | (603)           |
| Customer resources distributed but not managed | (1 129)         | (1 604)         |
| Insurance products (as agent)                  | (1 129)         | (1 604)         |
| Lending Business                               | (7 210)         | (8 006)         |
| Other lending business                         | (7 210)         | (8 006)         |
| Other                                          | (44)            | (34)            |
| <b>Total</b>                                   | <b>(21 900)</b> | <b>(23 245)</b> |
| <b>Net fee and commission income</b>           | <b>121 719</b>  | <b>112 710</b>  |

The fee and commission income and expense presented in this table are not an integral part of the effective interest rate.

### 3 Dividend income

| EUR ths.                                                         | 2016         | 2017         |
|------------------------------------------------------------------|--------------|--------------|
| Financial assets designated at fair value through profit or loss | 629          | 375          |
| Available-for-sale financial assets                              | 563          | 711          |
| Dividend income from equity investments                          | 2 400        | 2 063        |
| <b>Total</b>                                                     | <b>3 592</b> | <b>3 149</b> |

### 4 Net trading and fair value result

The Bank has adopted a business model of centralised financial markets trading in cooperation with its parent company. Within this model Erste Group Bank AG conducts all trading operations on a central trading book in order to manage effectively market risks from the group trading activities (i.e. transactions with retail, corporate and other institutional clients), with the exception of equity risk trading and transactions for the Bank's liquidity management purposes.

Trading gains from the market positions of Erste Group Bank AG are

distributed according to the approved rules to local banks within the Erste group based on their financial results and are reported in the income statement line item 'Net trading result'. The basic principle underlying these rules is that Erste Group Bank AG absorbs potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. This business model of financial markets trading also includes reallocation of trading costs to the participating subsidiaries of Erste Group Bank AG based on their cost/income ratio.

#### Net trading result

| EUR ths.                           | 2016          | 2017          |
|------------------------------------|---------------|---------------|
| Securities and derivatives trading | 7 964         | 5 866         |
| Foreign exchange transactions      | 5 744         | 7 611         |
| Results from hedge accounting      | (220)         | 296           |
| <b>Total</b>                       | <b>13 489</b> | <b>13 773</b> |

The line item 'Securities and derivatives trading' includes gains from the Erste Group Bank's market positions attributable to the Bank.

#### Result from financial instruments designated at fair value through profit or loss

| EUR ths.                                                                          | 2016         | 2017         |
|-----------------------------------------------------------------------------------|--------------|--------------|
| Result from financial instruments designated at fair value through profit or loss | (916)        | (514)        |
| <b>Total</b>                                                                      | <b>(916)</b> | <b>(514)</b> |

### 5 Rental income from investment properties

| EUR ths.              | 2016       | 2017       |
|-----------------------|------------|------------|
| Investment properties | 367        | 324        |
| <b>Total</b>          | <b>367</b> | <b>324</b> |

Rental income is generated from rented premises classified as investment properties. The Bank is not authorized to provide operating lease as a lease company.

## 6 General administrative expenses

### Personnel expenses

| EUR ths.                                 | 2016             | 2017             |
|------------------------------------------|------------------|------------------|
| Wages and salaries                       | (94 509)         | (101 238)        |
| Legal social securities contribution     | (32 245)         | (35 095)         |
| Voluntary social securities contribution | (462)            | 1 654            |
| Other personnel expenses                 | (6 183)          | (5 307)          |
| <b>Total</b>                             | <b>(133 399)</b> | <b>(139 986)</b> |

As at 31 December 2017 the Bank had 4 232 employees, thereof five members of the Board of Directors. Average number of employees in the year 2017 was 4 208.

As at 31 December 2016 the Bank had 4 211 employees, thereof five members of the Board of Directors. Average number of employees in the year 2016 was 4 226.

### Other administrative expenses

| EUR ths.                       | 2016             | 2017             |
|--------------------------------|------------------|------------------|
| Deposit insurance contribution | (2 472)          | (800)            |
| IT expenses                    | (34 530)         | (33 865)         |
| Expenses for office space      | (28 567)         | (29 905)         |
| Office operating expenses      | (12 771)         | (11 744)         |
| Advertising / marketing        | (14 183)         | (14 872)         |
| Legal and consulting costs     | (3 457)          | (3 565)          |
| Sundry administrative expenses | (8 454)          | (9 462)          |
| <b>Total</b>                   | <b>(104 434)</b> | <b>(104 213)</b> |

The Bank is legally obliged to make a contribution to the Deposit Protection Fund, which is accounted for in accordance with the IFRIC 21. The amount of this annual contribution is calculated based on the Bank's customer deposit liabilities. The contribution to the Deposit Protection Fund was paid in June 2017.

Expenses for audit and other advisory services provided by the audit company are disclosed in the line item 'Legal and consulting costs' and were as follows:

| EUR ths.             | 2016         | 2017         |
|----------------------|--------------|--------------|
| Audit fees           | (670)        | (513)        |
| Tax consultancy fees | (75)         | -            |
| Other services       | (126)        | (98)         |
| <b>Total</b>         | <b>(871)</b> | <b>(611)</b> |

## Depreciation and amortisation

| EUR ths.                                                       | 2016            | 2017            |
|----------------------------------------------------------------|-----------------|-----------------|
| Software and other intangible assets                           | (24 545)        | (24 925)        |
| Owner occupied real estate                                     | (8 024)         | (7 176)         |
| Investment properties                                          | (220)           | (223)           |
| Office equipment / other fixed assets and IT assets (hardware) | (8 582)         | (8 639)         |
| <b>Total</b>                                                   | <b>(41 371)</b> | <b>(40 963)</b> |

## 7 Gains / losses from financial assets and liabilities not measured at fair value through profit or loss, net

| EUR ths.                                                  | 2016          | 2017       |
|-----------------------------------------------------------|---------------|------------|
| Derecognition of financial assets available for sale      | 27 004        | 285        |
| Derecognition of financial assets held to maturity        | 25            | 7          |
| From repurchase of liabilities measured at amortised cost | 15            | 8          |
| <b>Total</b>                                              | <b>27 044</b> | <b>300</b> |

In January 2017 the Bank sold its share in the company R.V.S., a.s., previously recognized at nil carrying amount for the sale price of 0,3 mil. Eur.

In the year 2016, referring to the purchase of shares of Visa Europe Ltd. by Visa INC. realised on 21 June 2016, the Bank reclassified the actual amount of unrealized measurement of its investment classified as financial asset available for sale in the amount of 26,7

mil. Eur from other comprehensive income to the position "Gains/ losses from financial assets and liabilities not measured at fair value through profit or loss, net" (see note 14).

Derecognition of the held-to-maturity financial assets relates to the sales close to maturity without breaching tainting rule as defined by IAS 39.

## 8 Net impairment loss on financial assets not measured at fair value through profit or loss

| EUR ths.                                        | 2016            | 2017            |
|-------------------------------------------------|-----------------|-----------------|
| Loans and receivables                           | (48 198)        | (30 023)        |
| Allocation to risk provisions                   | (320 691)       | (305 884)       |
| Release of risk provisions                      | 264 986         | 270 241         |
| Direct write-offs                               | -               | (882)           |
| Recoveries on written-off loans and receivables | 7 507           | 6 502           |
| Financial assets - held to maturity             | (37)            | (50)            |
| <b>Total</b>                                    | <b>(48 235)</b> | <b>(30 073)</b> |



## 9 Other operating result

| EUR ths.                                                         | 2016            | 2017            |
|------------------------------------------------------------------|-----------------|-----------------|
| <b>Other operating expenses</b>                                  |                 |                 |
| Allocation to other provisions                                   | (1 304)         | (906)           |
| Allocation to provisions for commitments and guarantees given    | (28 316)        | (28 071)        |
| Levies on banking activities                                     | (25 111)        | (27 372)        |
| Banking tax                                                      | (25 111)        | (27 372)        |
| Other taxes                                                      | (191)           | (167)           |
| Recovery and resolution fund                                     | (3 995)         | (2 756)         |
| Result from tangible and intangible assets (other than goodwill) | -               | (1 198)         |
| Other operating expenses                                         | 2 558           | (9 375)         |
| <b>Total</b>                                                     | <b>(56 359)</b> | <b>(69 844)</b> |
| <b>Other operating income</b>                                    |                 |                 |
| Release of other provisions                                      | 1 360           | 320             |
| Release of provisions for commitments and guarantees given       | 32 732          | 24 519          |
| Result from tangible and intangible assets (other than goodwill) | 5               | -               |
| Other operating income                                           | 5 254           | 5 053           |
| <b>Total</b>                                                     | <b>39 352</b>   | <b>29 893</b>   |
| <b>Other operating result</b>                                    | <b>(17 007)</b> | <b>(39 952)</b> |

There are two significant items within other operating result for the year 2017 presented in the line item 'Levies on banking activities':

- levy of selected financial institutions ('bank tax') in the amount of 27,4 mil. Eur (2016: 25,1 mil. Eur);
- contribution to the National Resolution Fund ('resolution fund') in the amount of 2,8 mil. Eur (2016: 4,0 mil. Eur).

The Bank is legally obliged to make a contribution to the National resolution fund ('Resolution fund'), which is accounted for in accordance with the IFRIC 21. The amount of this annual contribution is determined by the National authority for crisis resolution based on the Bank's liabilities and its risk profile. The contribution to the National resolution fund was paid in May 2017.

In the year 2016 the Bank realized an extraordinary gain in the amount of 14,5 mil. Eur from the contribution of POS terminals and relating transactions business into the entity Global Payments, s.r.o. seated in Czech republic (see note 14). This gain was disclosed in the line item "Result from other operating expenses/income".

In the year 2016, referring to the extraordinary gain realized from the sale of the shares of Visa Europe Ltd., the Bank made a donation amounting 2,6 mil. Eur to Nadácia Slovenskej sporiteľne, that was disclosed in the line item "Result from other operating expenses/income".

## 10 Taxes on income

The actual tax on the Bank's profit before tax differs from the theoretical amount, that would be calculated using the basic tax rate valid in Slovak Republic, due to the following adjustments:

| EUR ths.                                                         | 2016          | 2017          |
|------------------------------------------------------------------|---------------|---------------|
| Pre-tax profit / loss                                            | 282 837       | 214 165       |
| Statutory tax rate                                               | 22%           | 21%           |
| Theoretical income tax expense                                   | 62 224        | 44 975        |
| Impact of tax rate change                                        | 2 686         | -             |
| Impact of tax-exempt earnings                                    | (13 002)      | (2 850)       |
| Impact of tax non-deductible expenses                            | 19 252        | 10 272        |
| Tax expenses / earnings not attributable to the reporting period | (544)         | (288)         |
| <b>Total</b>                                                     | <b>70 616</b> | <b>52 109</b> |

| EUR ths.                      | 2016            | 2017            |
|-------------------------------|-----------------|-----------------|
| Current tax expense / income  | (69 042)        | (54 502)        |
| current period                | (69 042)        | (54 502)        |
| Deferred tax expense / income | (1 574)         | 2 393           |
| current period                | (1 574)         | 2 393           |
| <b>Total</b>                  | <b>(70 616)</b> | <b>(52 109)</b> |

### Expiration of tax losses

| EUR ths.     | 2016         | 2017         |
|--------------|--------------|--------------|
| 2017         | 4 520        | -            |
| 2018         | 2 098        | 2 098        |
| 2019         | 832          | 832          |
| 2020         | 769          | 769          |
| 2021         | -            | -            |
| <b>Total</b> | <b>8 219</b> | <b>3 698</b> |

Tax losses carried forward represent results of the former subsidiaries, which were merged with the Bank during prior years.

Further information on tax assets and liabilities are disclosed in the note 22.

## 11 Cash and cash balances

| EUR ths.                       | 2016           | 2017           |
|--------------------------------|----------------|----------------|
| Cash on hand                   | 317 057        | 369 787        |
| Cash balances at central banks | 79 916         | 640            |
| Other demand deposits          | -              | 53 802         |
| <b>Total</b>                   | <b>396 973</b> | <b>424 229</b> |

As at 31 December 2017 the balances at central banks included a mandatory reserve deposit in the amount of 0,6 mil. Eur (2016: 79,9 mil. Eur). For the period covering the year-end 2017 the prescribed average balance of the mandatory reserve deposit amounted 123,0 mil. Eur (2016: 112,4 mil. Eur) and the actual fulfilment was 100,08 % (2016: 118,40 %).

For the purpose of the Statement of cash flows, cash and cash equivalents include accounts with central banks and accounts with

other credit institutions repayable on demand. The mandatory reserve deposit is excluded from cash and cash equivalents. This deposit is repayable on demand, however it is not used for a day-to-day operation, as the Bank is required to meet a defined average balance during a monitored period.

As at 31 December 2016 other demand deposits amounted 31,0 mil. Eur and were disclosed in the line item "Loans and receivables to credit institutions".

## 12 Financial assets – held for trading / Derivatives

| EUR ths.         | Notional value   |                  | Positive fair value |               | Negative fair value |               |
|------------------|------------------|------------------|---------------------|---------------|---------------------|---------------|
|                  | 2016             | 2017             | 2016                | 2017          | 2016                | 2017          |
| Interest rate    | 1 148 509        | 1 468 213        | 15 899              | 12 197        | 15 206              | 10 148        |
| Equity           | 75 453           | 72 744           | 416                 | 345           | 416                 | 345           |
| Foreign exchange | 408 886          | 361 508          | 23 597              | 23 774        | 22 383              | 22 686        |
| Credit           | 50 000           | -                | 50                  | -             | -                   | -             |
| Commodity        | 120 593          | 31 007           | 4 852               | 168           | 4 807               | 165           |
| <b>Total</b>     | <b>1 803 441</b> | <b>1 933 472</b> | <b>44 814</b>       | <b>36 484</b> | <b>42 812</b>       | <b>33 344</b> |

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk

exposure is managed as a part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most cases requires margin deposits.

## 13 Financial assets – at fair value through profit or loss

Financial assets were designated as fair value through profit or loss at their initial recognition based on the intention of the Bank to manage them on fair value basis.

| EUR ths.           | 2016         | 2017         |
|--------------------|--------------|--------------|
| Equity instruments | 6 118        | 5 602        |
| <b>Total</b>       | <b>6 118</b> | <b>5 602</b> |

The amounts represent the maximum exposure to credit risk.

## 14 Financial assets – available for sale

| EUR ths.                   | 2016             | 2017             |
|----------------------------|------------------|------------------|
| Equity instruments         | 35 387           | 47 885           |
| Debt securities            | 1 027 934        | 972 734          |
| General governments        | 841 430          | 800 553          |
| Credit institutions        | 60 644           | 51 204           |
| Non-financial corporations | 125 860          | 120 977          |
| <b>Total</b>               | <b>1 063 321</b> | <b>1 020 619</b> |

The carrying amounts detailed above represent the maximum exposure to credit risk.

As at 31 December 2017 financial assets available for sale measured at cost amounted less than 0,1 mil. Eur (2016: 0,7 mil. Eur) and comprised of other equity investments in Burza cenných papierov v Bratislave, a.s. and S Rail Lease s.r.o.

As at 31 December 2016 the Bank held the investment in Poistovňa Slovenskej sporiteľne, a.s. VIG in the amount of 0,7 mil. Eur as a financial asset available for sale measured at cost. This investment was revalued to fair value of 3,1 mil. Eur as at 31 December 2017.

On 21 June 2016 Visa INC. bought shares of Visa Europe Ltd. In relation to this transaction the Bank derecognized the value of its investment in Visa Europe Ltd. in the actual amount of 26,7 mil. Eur (see note 7). The sale of the participation has been settled in cash amounting 19,4 mil. Eur, together with recognition of Visa INC. shares in the amount of 5,7 mil. Eur and recognition

of a receivable from deferred payment in the amount of 1,6 mil. Eur payable in three years time. As at 31 December 2017 the investment in Visa INC. was disclosed in the line item "Financial assets - available for sale" in the amount of 13,2 mil. Eur.

On 1 June 2016 the Bank acquired 24,6 % share in associate company Global Payments, s.r.o. by contribution of POS terminals and relating transactions business (see note 9). Subsequently, the Bank sold 51 % of this share amounting 7,4 mil. Eur to Global Payments – Caixa Acquisition Corporation S.à r.l. Consequently, the share of the Bank in its associate Global Payments, s.r.o. decreased to 12,5 %. On 8 September 2016 the Bank provided a cash and non-cash contribution (in the form of an investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30,99 % share in this company. As at 31 December 2017 the investment in Holding Card Service, spol. s r.o. was disclosed in the line item "Investments in subsidiaries and associates" in the amount of 7,0 mil. Eur.

## 15 Financial assets – held to maturity

| EUR ths.                   | Gross carrying amount |                  | Collective allowances |              | Net carrying amount |                  |
|----------------------------|-----------------------|------------------|-----------------------|--------------|---------------------|------------------|
|                            | 2016                  | 2017             | 2016                  | 2017         | 2016                | 2017             |
| General governments        | 2 577 372             | 2 542 292        | (243)                 | (238)        | 2 577 128           | 2 542 054        |
| Credit institutions        | 63 468                | 92 205           | (36)                  | (53)         | 63 433              | 92 153           |
| Non-financial corporations | 101                   | 10 232           | (1)                   | (37)         | 101                 | 10 195           |
| <b>Total</b>               | <b>2 640 941</b>      | <b>2 644 729</b> | <b>(280)</b>          | <b>(328)</b> | <b>2 640 662</b>    | <b>2 644 402</b> |

The amounts represent the maximum exposure to credit risk.

## 16 Loans and receivables to credit institutions

| EUR ths.            | Gross carrying amount |                | Collective allowances |          | Net carrying amount |                |
|---------------------|-----------------------|----------------|-----------------------|----------|---------------------|----------------|
|                     | 2016                  | 2017           | 2016                  | 2017     | 2016                | 2017           |
| Loans and advances  |                       |                |                       |          |                     |                |
| Credit institutions | 89 942                | 177 616        | (36)                  | -        | 89 906              | 177 616        |
| <b>Total</b>        | <b>89 942</b>         | <b>177 616</b> | <b>(36)</b>           | <b>-</b> | <b>89 906</b>       | <b>177 616</b> |

The amounts represent the maximum exposure to credit risk.

As at 31 December 2017 and at the end of the year 2016 the Bank had no reverse repo agreements.

As at 31 December 2016 the line item "Loans and receivables to credit institutions" included accounts repayable on demand in the amount of 31,0 mil. Eur. As at 31 December 2017 these accounts in the amount of 53,8 mil. Eur were presented in the line item "Cash and cash balances".

Allowances for loans and receivables to credit institutions were as follows:

| EUR ths.                     | 2016        | Allocations  | Releases   | 2017     |
|------------------------------|-------------|--------------|------------|----------|
| <b>Collective allowances</b> |             |              |            |          |
| Loans and advances           | (36)        | (599)        | 635        | -        |
| <b>Total</b>                 | <b>(36)</b> | <b>(599)</b> | <b>635</b> | <b>-</b> |

| EUR ths.                     | 2015        | Allocations  | Releases   | 2016        |
|------------------------------|-------------|--------------|------------|-------------|
| <b>Collective allowances</b> |             |              |            |             |
| Loans and advances           | (29)        | (407)        | 399        | (36)        |
| <b>Total</b>                 | <b>(29)</b> | <b>(407)</b> | <b>399</b> | <b>(36)</b> |

## 17 Loans and receivables to customers

| EUR ths.                     | Gross carrying amount |                   | Specific allowances |                  | Collective allowances |                 | Net carrying amount |                   |
|------------------------------|-----------------------|-------------------|---------------------|------------------|-----------------------|-----------------|---------------------|-------------------|
|                              | 2016                  | 2017              | 2016                | 2017             | 2016                  | 2017            | 2016                | 2017              |
| General governments          | 197 813               | 209 500           | (1)                 | (1)              | (252)                 | (294)           | 197 560             | 209 206           |
| Other financial corporations | 83 351                | 95 196            | (7)                 | (300)            | (257)                 | (227)           | 83 087              | 94 669            |
| Non-financial corporations   | 2 247 282             | 2 657 868         | (94 663)            | (86 957)         | (22 041)              | (16 407)        | 2 130 578           | 2 554 504         |
| Households                   | 8 110 581             | 9 161 175         | (159 027)           | (202 537)        | (66 416)              | (58 067)        | 7 885 138           | 8 900 571         |
| <b>Total</b>                 | <b>10 639 027</b>     | <b>12 123 739</b> | <b>(253 698)</b>    | <b>(289 795)</b> | <b>(88 966)</b>       | <b>(74 995)</b> | <b>10 296 363</b>   | <b>11 758 950</b> |

In January 2017 the Bank adjusted presentation of impaired loans. As a result, the gross carrying amount of impaired loans and their respective risk allowances increased, both by 45,4 mil. Eur. This presentation adjustment has affected neither the net carrying amount of impaired loans, nor profit of the Bank.

Allowances for loans and receivables to customers were as follows:

| EUR ths.                     | 2016             | Allocations      | Use           | Releases       | Interest income from impaired loans | Other changes   | 2017             | Výnosy z odpísaných úverov | Priame odpisy úverov |
|------------------------------|------------------|------------------|---------------|----------------|-------------------------------------|-----------------|------------------|----------------------------|----------------------|
| <b>Specific allowances</b>   | <b>(253 698)</b> | <b>(173 156)</b> | <b>9 272</b>  | <b>123 504</b> | <b>8 214</b>                        | <b>(3 933)</b>  | <b>(289 795)</b> | <b>6 502</b>               | <b>(882)</b>         |
| General governments          | (1)              | -                | -             | -              | -                                   | -               | (1)              | -                          | -                    |
| Other financial corporations | (7)              | (298)            | 3             | 1              | -                                   | -               | (300)            | -                          | -                    |
| Non-financial corporations   | (94 663)         | (27 277)         | 7 639         | 29 760         | 560                                 | (2 977)         | (86 957)         | 1 041                      | (141)                |
| Households                   | (159 027)        | (145 581)        | 1 630         | 93 743         | 7 654                               | (956)           | (202 537)        | 5 461                      | (741)                |
| <b>Collective allowances</b> | <b>(88 966)</b>  | <b>(132 129)</b> | <b>41 420</b> | <b>146 100</b> | <b>-</b>                            | <b>(41 420)</b> | <b>(74 995)</b>  | <b>-</b>                   | <b>-</b>             |
| General governments          | (252)            | (181)            | -             | 139            | -                                   | -               | (294)            | -                          | -                    |
| Other financial corporations | (257)            | (1 734)          | 6             | 1 763          | -                                   | (6)             | (227)            | -                          | -                    |
| Non-financial corporations   | (22 041)         | (22 057)         | 2 594         | 27 691         | -                                   | (2 594)         | (16 407)         | -                          | -                    |
| Households                   | (66 416)         | (108 157)        | 38 821        | 116 507        | -                                   | (38 821)        | (58 067)         | -                          | -                    |
| <b>Total</b>                 | <b>(342 665)</b> | <b>(305 285)</b> | <b>50 693</b> | <b>269 604</b> | <b>8 214</b>                        | <b>(45 354)</b> | <b>(364 790)</b> | <b>6 502</b>               | <b>(882)</b>         |

| Eur tis.                     | 2015             | Tvorba           | Použitie      | Rozpustenie    | Výnosový úrok zo znehodnotených úverov | Ostatné úpravy (+/-) | 2016             | Výnosy z odpísaných úverov | Priame odpisy úverov |
|------------------------------|------------------|------------------|---------------|----------------|----------------------------------------|----------------------|------------------|----------------------------|----------------------|
| <b>Specific allowances</b>   | <b>(275 470)</b> | <b>(162 148)</b> | <b>59 149</b> | <b>115 958</b> | <b>8 813</b>                           | <b>-</b>             | <b>(253 698)</b> | <b>7 507</b>               | <b>-</b>             |
| General governments          | -                | (1)              | -             | -              | -                                      | -                    | (1)              | -                          | -                    |
| Other financial corporations | (55)             | (1)              | -             | 49             | -                                      | -                    | (7)              | -                          | -                    |
| Non-financial corporations   | (126 835)        | (66 652)         | 35 231        | 61 981         | 1 612                                  | -                    | (94 663)         | 5 399                      | -                    |
| Households                   | (148 580)        | (95 494)         | 23 918        | 53 928         | 7 201                                  | -                    | (159 027)        | 2 108                      | -                    |
| <b>Collective allowances</b> | <b>(79 459)</b>  | <b>(158 138)</b> | <b>-</b>      | <b>148 629</b> | <b>-</b>                               | <b>-</b>             | <b>(88 966)</b>  | <b>-</b>                   | <b>-</b>             |
| General governments          | (449)            | (135)            | -             | 331            | -                                      | -                    | (252)            | -                          | -                    |
| Other financial corporations | (303)            | (1 507)          | -             | 1 554          | -                                      | -                    | (257)            | -                          | -                    |
| Non-financial corporations   | (18 001)         | (38 385)         | -             | 34 344         | -                                      | -                    | (22 041)         | -                          | -                    |
| Households                   | (60 706)         | (118 111)        | -             | 112 400        | -                                      | -                    | (66 416)         | -                          | -                    |
| <b>Total</b>                 | <b>(354 929)</b> | <b>(320 287)</b> | <b>59 149</b> | <b>264 587</b> | <b>8 813</b>                           | <b>-</b>             | <b>(342 665)</b> | <b>7 507</b>               | <b>-</b>             |

As at 31 December 2017, 15 largest customers accounted for 5,5 % of the gross loan portfolio amounting 664,1 mil. Eur (2016: 5,6 %, 595,8 mil. Eur).

#### Mandate loans

During the year 2017 the Bank cooperated with 13 external companies (2016: 10 companies). Following mandate contracts the management and administration of certain non-performing receivables is outsourced. In case of mandate loans, the Bank maintains risks and rewards associated with the underlying exposures and shares recoveries with the external service providers.

As at 31 December 2017 the total amount of gross loans outsourced was 104,7 mil. Eur (2016: 139,0 mil. Eur).

#### Write off and sale of receivables

During the year 2017 the Bank sold loan receivables in the amount of 80,1 mil. Eur (2016: 56,8 mil. Eur) for a consideration of 14,8 mil. Eur (2016: 15,1 mil. Eur) and used the corresponding allowances amounting 71,2 mil. Eur (2016: 46,3 mil. Eur). Once loan receivables are sold, the Bank transfers all risks and rewards attributable to them and does not have any continuing involvement in the loan receivables subsequent to their sale.

In the year 2017 the Bank has also written off loans in the amount of 10,4 mil. Eur (2016: 23,4 mil. Eur) and used the respective allowances amounting 9,4 mil. Eur (2016: 23,2 mil. Eur).

## Finance leases

Loans and advances to customers also include net investments in finance leases acquired as a result of the merger of the former subsidiary Leasing Slovenskej sporiteľne, a.s. with the Bank in the year 2015. The principal assets held under lease arrangements include cars and other technical equipment.

As at 31 December 2017 the accumulated allowances for uncollectible minimum lease payments receivable amounted 0,7 mil. Eur (2016: 0,7 mil. Eur).

| EUR ths.                                  | 2016           | 2017           |
|-------------------------------------------|----------------|----------------|
| <b>Gross investment in finance leases</b> | <b>33 944</b>  | <b>78 266</b>  |
| Thereof:                                  |                |                |
| < 1 year                                  | 10 201         | 19 473         |
| 1-5 years                                 | 22 923         | 50 017         |
| > 5 years                                 | 820            | 8 776          |
| <b>Unearned income</b>                    | <b>(1 358)</b> | <b>(3 357)</b> |
| <b>Net investment in finance leases</b>   | <b>32 586</b>  | <b>74 909</b>  |
| Thereof:                                  |                |                |
| < 1 year                                  | 9 578          | 18 210         |
| 1-5 years                                 | 22 192         | 48 055         |
| > 5 years                                 | 816            | 8 644          |

## 18 Derivatives – hedge accounting

| EUR ths.          | Notional value |                | Positive fair value |              | Negative fair value |               |
|-------------------|----------------|----------------|---------------------|--------------|---------------------|---------------|
|                   | 2016           | 2017           | 2016                | 2017         | 2016                | 2017          |
| Fair value hedges | 397 821        | 397 821        | 7 705               | 6 761        | 52 389              | 42 100        |
| Interest rate     | 397 821        | 397 821        | 7 705               | 6 761        | 52 389              | 42 100        |
| <b>Total</b>      | <b>397 821</b> | <b>397 821</b> | <b>7 705</b>        | <b>6 761</b> | <b>52 389</b>       | <b>42 100</b> |

### Fair value hedge of assets

As at 31 December 2017 the Bank held in portfolio of financial assets available for sale fixed rate bonds denominated in Eur with nominal value of 381,0 mil. Eur (2016: 381,0 mil. Eur). As the purchases of these bonds increased exposure to interest rate risk in the period from five to fifteen years, the Bank entered into interest rate swap deals in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates.

During the year 2017 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Bank recognised a net gain on the hedging instruments in the amount of 10,4 mil. Eur (2016: net loss 8,6 mil. Eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 10,1 mil. Eur (2016: net gain 8,4 mil. Eur).

### Fair value hedge of liabilities

In July 2007 the Bank issued fixed rate mortgage bonds with maturity in July 2027 also disclosed in the note 25. At the same time the Bank entered into interest rate swap deals in order to hedge interest rate risk. As at 31 December 2017 the notional value of these hedged mortgage bonds was 16,6 mil. Eur (2016: 16,6 mil. Eur).

During the year 2017 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Bank recognised a net loss on the hedging instruments in the amount of 1,0 mil. Eur (2016: net gain 0,3 mil. Eur). On the other hand, a net gain on the hedged item attributable to the hedged risk amounted to 0,9 mil. Eur (2016: net loss 0,3 mil. Eur).



## 19 Investments in subsidiaries and associates

| EUR ths.                   | 2016          | 2017          |
|----------------------------|---------------|---------------|
| Investment in subsidiaries | 14 906        | 14 906        |
| Investment in associate    | 8 135         | 8 135         |
| <b>Total</b>               | <b>23 041</b> | <b>23 041</b> |

### Changes during the year 2017

In January 2017 the Bank sold its share in the company R.V.S., a.s., previously recognized in the line item "Financial assets - available for sale" at nil carrying amount. The sale proceeds amounted 0,3 mil. Eur.

In July 2017 the company S Rail Lease s.r.o. was established, in which the Bank holds 3 % share. As at 31 December 2017 this investment was disclosed in the line item "Financial assets - available for sale" in the amount of 0,1 tis. Eur.

### Changes during the year 2016

On 1 April 2016 the subsidiary Erste Group IT SK, spol. s r.o. s was merged with the Bank and consequently the Bank's equity increased by 1,6 mil. Eur.

The company s IT Solutions SK, spol. s r.o. in liquidation did not perform any economic activities in the years 2015 and 2016 and therefore nil values of assets and liabilities were presented. On 18 May 2016 an extraordinary general assembly of this company decided on liquidation finalisation and approved distribution of a liquidation residue among its shareholders. Slovenská sporiteľňa, a.s. as a shareholder with 23,5 % share received a liquidation payment in the amount of 114 151,68 Eur.

On 1 June 2016 the Bank acquired 24,6 % share in an associate Global Payments, s.r.o. seated in Czech republic by a contribution of POS terminals and related transactions business. Through this transaction the Bank realized an extraordinary gain in the amount of 14,5 mil. Eur (see note 9).

Subsequently, the Bank sold 51 % of this share amounting 7,4 mil. Eur to the company Global Payments – Caixa Acquisition Corporation S.à r.l. As a result, the share of the Bank in the company Global Payments, s.r.o. decreased to 12,5 % and was disclosed in the amount of 7,1 mil. Eur in the line item "Financial assets - available for sale" (see note 14).

On 8 September 2016 the Bank provided a cash and non-cash contribution (in the form of investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30,99 % share in this company.

On 20 May 2016 the subsidiary Derop B.V. increased its capital funds, whereby the Bank's contribution as a 85 % shareholder amounted 68 000,00 Eur.

On 4 August 2016 the Bank acquired the residual share (15 %) of the subsidiary Derop B.V. and became its 100 % shareholder. The purchase price was 2 977 683,00 Eur.

On 28 October 2016 the subsidiary Služby SLSP, s.r.o. decreased its capital funds, whereby the Bank received the amount of 7 447 672,00 Eur.

On 30 December 2016 the subsidiary Derop B.V. was merged with the subsidiary Služby SLSP, s.r.o.

The following table presents the carrying amounts of investments in subsidiaries and associates:

| EUR ths.                             | Cost          |               | Impairment |      | Net book value |               |
|--------------------------------------|---------------|---------------|------------|------|----------------|---------------|
|                                      | 2016          | 2017          | 2016       | 2017 | 2016           | 2017          |
| <b>Subsidiaries</b>                  | <b>14 906</b> | <b>14 906</b> | -          | -    | <b>14 906</b>  | <b>14 906</b> |
| Procurement Services SK, s.r.o.      | 3             | 3             | -          | -    | 3              | 3             |
| Služby SLSP, spol. s r. o.           | 14 903        | 14 903        | -          | -    | 14 903         | 14 903        |
| <b>Associates</b>                    | <b>8 135</b>  | <b>8 135</b>  | -          | -    | <b>8 135</b>   | <b>8 135</b>  |
| Prvá stavebná sporiteľňa, a.s.       | 1 093         | 1 093         | -          | -    | 1 093          | 1 093         |
| Slovak Banking Credit Bureau, s.r.o. | 3             | 3             | -          | -    | 3              | 3             |
| Holding Card Service, spol. s r. o.  | 7 038         | 7 038         | -          | -    | 7 038          | 7 038         |
| <b>Total</b>                         | <b>23 041</b> | <b>23 041</b> | -          | -    | <b>23 041</b>  | <b>23 041</b> |

The Bank performs impairment review of investments in subsidiaries and associates. Impairment losses and their reversals are recognized in the income statement line item 'Other operating result'.

The following table presents development of impairment provision for subsidiaries and associates:

| EUR ths.                 | Impairment on subsidiaries |      | Impairment on associates |      | Total          |      |
|--------------------------|----------------------------|------|--------------------------|------|----------------|------|
|                          | 2016                       | 2017 | 2016                     | 2017 | 2016           | 2017 |
| <b>As at 1 January</b>   | -                          | -    | <b>(2 409)</b>           | -    | <b>(2 409)</b> | -    |
| Use                      | -                          | -    | 2 409                    | -    | 2 409          | -    |
| <b>As at 31 December</b> | -                          | -    | -                        | -    | -              | -    |

The impairment used related to the former associate s IT Solutions SK, spol. s r.o . liquidated in the year 2016.

**Investments in subsidiaries of Slovenská sporiteľňa, a.s.**

| EUR ths.                                                                                      | Služby SLSP, s.r.o.                                       |        |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------|--------|
|                                                                                               | 2016                                                      | 2017   |
| Place of business                                                                             | Tomášikova 48<br>832 01 Bratislava<br>Slovenská republika |        |
| Main business activity                                                                        | Ancillary bank services                                   |        |
| Ownership held                                                                                | 100%                                                      |        |
| Voting rights held                                                                            | 100%                                                      |        |
| IFRS Classification                                                                           | Subsidiary                                                |        |
| Reporting currency                                                                            | EURO                                                      |        |
| Dividend income received                                                                      | -                                                         | -      |
| Impairment loss recognized (cumulative basis)                                                 | -                                                         | -      |
| Impairment loss recognized (allocation, release, use for the reporting year)                  | -                                                         | -      |
| Loan commitments, financial guarantees and other commitments given                            | -                                                         | -      |
| <b>Investee's key financial information for the reporting year (as at reporting year-end)</b> |                                                           |        |
| Cash and cash balances                                                                        | -                                                         | -      |
| Other current assets                                                                          | 80                                                        | 234    |
| Non-current assets                                                                            | 22 901                                                    | 22 812 |
| Current liabilities                                                                           | -                                                         | -      |
| Non-current liabilities                                                                       | 14                                                        | 2      |
| Operating Income                                                                              | (146)                                                     | 78     |
| Post-tax result from continuing operations                                                    | (148)                                                     | 78     |
| Other comprehensive income                                                                    | -                                                         | -      |
| Total comprehensive income                                                                    | (148)                                                     | 78     |
| Depreciation and amortization                                                                 | -                                                         | -      |
| Interest income                                                                               | -                                                         | -      |
| Interest expense                                                                              | -                                                         | -      |
| Tax expense/income                                                                            | (3)                                                       | -      |

| Realitná spoločnosť<br>Slovenskej sporiteľne, a.s.<br>(100% subsidiary of<br>Služby SLSP, s.r.o.) |       | Laned,a.s.<br>(100% subsidiary of<br>Služby SLSP, s.r.o.) |         | Procurement<br>Services SK, s.r.o.                        |      |
|---------------------------------------------------------------------------------------------------|-------|-----------------------------------------------------------|---------|-----------------------------------------------------------|------|
| 2016                                                                                              | 2017  | 2016                                                      | 2017    | 2016                                                      | 2017 |
| Tomášikova 48<br>832 10 Bratislava<br>Slovenská republika                                         |       | Tomášikova 48<br>832 71 Bratislava<br>Slovenská republika |         | Tomášikova 48<br>832 75 Bratislava<br>Slovenská republika |      |
| Real estate agency                                                                                |       | SPE-Real estate company                                   |         | Procurement                                               |      |
| 100%                                                                                              |       | 100%                                                      |         | 51%                                                       |      |
| 100%                                                                                              |       | 100%                                                      |         | 51%                                                       |      |
| Subsidiary                                                                                        |       | Subsidiary                                                |         | Subsidiary                                                |      |
| EURO                                                                                              |       | EURO                                                      |         | EURO                                                      |      |
| -                                                                                                 | -     | -                                                         | -       | 15                                                        | 25   |
| -                                                                                                 | -     | -                                                         | -       | -                                                         | -    |
| -                                                                                                 | -     | -                                                         | -       | -                                                         | -    |
| -                                                                                                 | -     | -                                                         | -       | -                                                         | -    |
| -                                                                                                 | -     | -                                                         | -       | -                                                         | -    |
| -                                                                                                 | -     | -                                                         | -       | -                                                         | -    |
| 435                                                                                               | 73    | 4 344                                                     | 2 898   | 250                                                       | 124  |
| 22                                                                                                | 9     | 63 680                                                    | 60 333  | 166                                                       | 258  |
| -                                                                                                 | -     | 45 921                                                    | 39 230  | -                                                         | -    |
| 129                                                                                               | 31    | 263                                                       | 214     | 343                                                       | 319  |
| 572                                                                                               | (189) | 6 402                                                     | 6 297   | 1 172                                                     | 52   |
| 212                                                                                               | (190) | 2 061                                                     | 2 049   | 49                                                        | 39   |
| -                                                                                                 | -     | -                                                         | -       | -                                                         | -    |
| 212                                                                                               | (190) | 2 061                                                     | 2 049   | 49                                                        | 39   |
| (357)                                                                                             | -     | (3 766)                                                   | (3 703) | -                                                         | -    |
| -                                                                                                 | -     | -                                                         | -       | -                                                         | -    |
| -                                                                                                 | -     | (364)                                                     | (320)   | -                                                         | -    |
| (3)                                                                                               | (1)   | (575)                                                     | (545)   | (18)                                                      | (13) |

## Investments in associates of Slovenská sporiteľňa, a.s.

| EUR ths.                                                                     | Prvá stavebná sporiteľňa, a. s.                          |       | Slovak Banking Credit Bureau, s. r. o.                      |      | Holding Card Service, spol. s r. o.                       |      |
|------------------------------------------------------------------------------|----------------------------------------------------------|-------|-------------------------------------------------------------|------|-----------------------------------------------------------|------|
|                                                                              | 2016                                                     | 2017  | 2016                                                        | 2017 | 2016                                                      | 2017 |
| Place of business                                                            | Bajkalská 30<br>829 48 Bratislava<br>Slovenská republika |       | Mlynské nivy 14<br>821 09 Bratislava<br>Slovenská republika |      | Olbrachtova 1929/62,<br>140 00 Praha 4<br>Česká republika |      |
| Main business activity                                                       | Banking                                                  |       | Retail credit register                                      |      | Equity release company                                    |      |
| Ownership held                                                               | 9.98%                                                    |       | 33.33%                                                      |      | 30.99%                                                    |      |
| Voting rights held                                                           | 35.00%                                                   |       | 33.33%                                                      |      | 30.99%                                                    |      |
| IFRS Classification                                                          | Associate                                                |       | Associate                                                   |      | Associate                                                 |      |
| Reporting currency                                                           | EURO                                                     |       | EURO                                                        |      | EURO                                                      |      |
| Dividend income received                                                     | 2 270                                                    | 2 038 | -                                                           | -    | -                                                         | -    |
| Impairment loss recognized (cumulative basis)                                | -                                                        | -     | -                                                           | -    | -                                                         | -    |
| Impairment loss recognized (allocation, release, use for the reporting year) | -                                                        | -     | -                                                           | -    | -                                                         | -    |
| Loan commitments, financial guarantees and other commitments given           | -                                                        | -     | -                                                           | -    | -                                                         | -    |

### Investee's key financial information for the reporting year (as at reporting year-end)

|                                            |           |           |     |     |        |        |
|--------------------------------------------|-----------|-----------|-----|-----|--------|--------|
| Cash and cash balances                     | 250       | 435       | 318 | 211 | 13     | 7      |
| Other financial assets                     | 2 701 401 | 2 864 354 | 38  | 20  | -      | -      |
| Non-financial assets                       | 78 530    | 78 783    | 10  | 2   | 22 686 | 24 016 |
| Current liabilities                        | 2 514 494 | 2 684 222 | 211 | 27  | -      | -      |
| Non-current liabilities                    | 33 158    | 24 150    | 7   | 6   | -      | 7      |
| Operating Income                           | 41 210    | 42 392    | 5   | 63  | (9)    | (4)    |
| Post-tax result from continuing operations | 17 644    | 16 943    | (3) | 55  | (9)    | (4)    |
| Other comprehensive income                 | 2 561     | 1 221     | -   | -   | -      | -      |
| Total comprehensive income                 | 20 205    | 18 164    | (3) | 55  | (9)    | (4)    |
| Depreciation and amortization              | (3 809)   | (3 966)   | (7) | (7) | -      | -      |
| Interest income                            | 104 646   | 99 151    | -   | -   | -      | -      |
| Interest expense                           | (49 547)  | (45 338)  | -   | (1) | -      | -      |
| Tax expense/income                         | (6 396)   | (5 363)   | -   | -   | -      | -      |

As at 31 December 2017 the Bank held 9.98 % share of Prvá stavebná sporiteľňa, a.s. (hereafter 'PSS'), alike in the year 2016. In accordance with a contract with Erste Group Bank AG, the Bank acts on behalf of its parent company, which held 25.02 % share in PSS in both presented years. In the year 2004, in accordance with the approval of the National Bank of Slovakia, the Bank

has nominated a representative in the Supervisory Board of PSS, who replaced a representative of Erste Group Bank AG. Consequently the Bank has established significant influence in PSS and therefore the Bank's investment in PSS is presented as an associate. Dividend income from PSS is reported in the income statement line item 'Dividend income' and disclosed in the note 3.

## 20 Property, equipment and other assets

### Cost

| EUR ths.                              | Land and buildings | Office equipment / other fixed assets | IT assets (hardware) | Property and equipment | Investment properties |
|---------------------------------------|--------------------|---------------------------------------|----------------------|------------------------|-----------------------|
| <b>Balance as at 1 January 2016</b>   | <b>199 301</b>     | <b>60 552</b>                         | <b>54 650</b>        | <b>314 503</b>         | <b>7 497</b>          |
| Additions                             | 5 019              | 3 336                                 | 4 665                | 13 020                 | -                     |
| Disposals                             | (21 425)           | (4 207)                               | (414)                | (26 047)               | (461)                 |
| Reclassification                      | 373                | -                                     | -                    | 373                    | (373)                 |
| Merger (+/-)                          | -                  | 5                                     | 86                   | 91                     | -                     |
| <b>Balance as at 31 December 2016</b> | <b>183 268</b>     | <b>59 686</b>                         | <b>58 987</b>        | <b>301 940</b>         | <b>6 663</b>          |
| Additions                             | 5 889              | 3 653                                 | 3 740                | 13 281                 | -                     |
| Disposals                             | (18 540)           | (6 972)                               | (15 027)             | (40 539)               | -                     |
| Reclassification                      | 403                | -                                     | -                    | 403                    | (403)                 |
| <b>Balance as at 31 December 2017</b> | <b>171 020</b>     | <b>56 367</b>                         | <b>47 700</b>        | <b>275 085</b>         | <b>6 260</b>          |

### Accumulated depreciation

| EUR ths.                              | Land and buildings | Office equipment / other fixed assets | IT assets (hardware) | Property and equipment | Investment properties |
|---------------------------------------|--------------------|---------------------------------------|----------------------|------------------------|-----------------------|
| <b>Balance as at 1 January 2016</b>   | <b>(110 851)</b>   | <b>(50 960)</b>                       | <b>(40 746)</b>      | <b>(202 556)</b>       | <b>(4 617)</b>        |
| Depreciation                          | (8 024)            | (3 604)                               | (4 978)              | (16 606)               | (220)                 |
| Disposals                             | 11 716             | 4 164                                 | 398                  | 16 278                 | 263                   |
| Impairment                            | (1 819)            | -                                     | -                    | (1 819)                | -                     |
| Reversal of impairment                | 2 384              | -                                     | -                    | 2 384                  | 55                    |
| Reclassification                      | (244)              | -                                     | -                    | (244)                  | 244                   |
| Merger (+/-)                          | -                  | (5)                                   | (83)                 | (88)                   | -                     |
| <b>Balance as at 31 December 2016</b> | <b>(106 838)</b>   | <b>(50 405)</b>                       | <b>(45 409)</b>      | <b>(202 651)</b>       | <b>(4 275)</b>        |
| Depreciation                          | (7 167)            | (3 582)                               | (5 057)              | (15 806)               | (232)                 |
| Disposals                             | 11 669             | 6 812                                 | 15 022               | 33 502                 | -                     |
| Impairment                            | (4 028)            | -                                     | -                    | (4 028)                | -                     |
| Reversal of impairment                | 4 389              | -                                     | -                    | 4 389                  | 41                    |
| Reclassification                      | (237)              | -                                     | -                    | (237)                  | 237                   |
| <b>Balance as at 31 December 2017</b> | <b>(102 212)</b>   | <b>(47 175)</b>                       | <b>(35 444)</b>      | <b>(184 831)</b>       | <b>(4 229)</b>        |

### Carrying amount

| EUR ths.                              | Land and buildings | Office equipment / other fixed assets | IT assets (hardware) | Property and equipment | Investment properties |
|---------------------------------------|--------------------|---------------------------------------|----------------------|------------------------|-----------------------|
| <b>Balance as at 31 December 2016</b> | <b>76 430</b>      | <b>9 281</b>                          | <b>13 578</b>        | <b>99 289</b>          | <b>2 388</b>          |
| <b>Balance as at 31 December 2017</b> | <b>68 811</b>      | <b>9 191</b>                          | <b>12 253</b>        | <b>90 255</b>          | <b>2 031</b>          |

Cost of property and equipment, which are fully depreciated but still used by the Bank as at 31 December 2017 amounted 73,2 mil. Eur (2016: 87,3 mil. Eur) and includes various types of tangible fixed assets.

As at 31 December 2017 the Bank owned property and equipment not yet put in use in the amount of 3,6 mil. Eur (2016: 2,6 mil. Eur).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

## Investment properties

As at 31 December 2017 the carrying amount of investment properties was 2,0 mil. Eur (2016: 2,4 mil. Eur). Total rental income earned on this property for the year 2017 amounted 0,3

mil. Eur (2016: 0,4 mil. Eur) and is separately presented in the line item 'Rental income from investment properties'. Depreciation of rented property for the year 2017 amounted 0,2 mil. Eur (2016: 0,2 mil. Eur) and is presented in the line item 'Depreciation'.

## Operating leases

Summary of future minimum lease payments under non-cancellable operating leases where the Bank acts as lessee:

| EUR ths.     | 2016          | 2017          |
|--------------|---------------|---------------|
| < 1 year     | 15 735        | 15 555        |
| 1-5 years    | 48 340        | 46 363        |
| > 5 years    | 16 238        | 7 030         |
| <b>Total</b> | <b>80 313</b> | <b>68 948</b> |

The aforementioned summary includes also rental payments for the Bank's head-office in the amount of 46,8 mil. Eur (2016: 54,9 mil. Eur) according to the contract concluded with its subsidiary Laned, a.s.

The Bank does not act as a lessor in any non-cancellable operating lease transaction.



## 21 Intangible assets

### Cost

| EUR ths.                              | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total          |
|---------------------------------------|-------------------|--------------------------------------------|----------------------------------|----------------|
| <b>Balance as at 1 January 2016</b>   | <b>265 556</b>    | <b>-</b>                                   | <b>3 268</b>                     | <b>268 825</b> |
| Additions                             | 7 408             | 2 741                                      | 91                               | 10 239         |
| Disposals                             | (3 809)           | -                                          | (217)                            | (4 026)        |
| Merger (+/-)                          | 6                 | -                                          | -                                | 6              |
| <b>Balance as at 31 December 2016</b> | <b>269 161</b>    | <b>2 741</b>                               | <b>3 142</b>                     | <b>275 044</b> |
| Additions                             | 8 501             | (75)                                       | 1                                | 8 427          |
| <b>Balance as at 31 December 2017</b> | <b>277 662</b>    | <b>2 666</b>                               | <b>3 143</b>                     | <b>283 471</b> |

### Accumulated amortisation

| EUR ths.                              | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total            |
|---------------------------------------|-------------------|--------------------------------------------|----------------------------------|------------------|
| <b>Balance as at 1 January 2016</b>   | <b>(178 994)</b>  | <b>-</b>                                   | <b>(2 861)</b>                   | <b>(181 854)</b> |
| Amortisation                          | (24 177)          | (844)                                      | (235)                            | (25 256)         |
| Disposals                             | 3 809             | -                                          | 217                              | 4 026            |
| Merger (+/-)                          | (6)               | -                                          | -                                | (6)              |
| <b>Balance as at 31 December 2016</b> | <b>(199 368)</b>  | <b>(844)</b>                               | <b>(2 879)</b>                   | <b>(203 090)</b> |
| Amortisation                          | (24 311)          | (451)                                      | (164)                            | (24 925)         |
| <b>Balance as at 31 December 2017</b> | <b>(223 679)</b>  | <b>(1 295)</b>                             | <b>(3 043)</b>                   | <b>(228 015)</b> |

### Carrying amount

| EUR ths.                              | Software acquired | Self-constructed software within the Group | Others (licenses, patents, etc.) | Total         |
|---------------------------------------|-------------------|--------------------------------------------|----------------------------------|---------------|
| <b>Balance as at 31 December 2016</b> | <b>69 793</b>     | <b>1 897</b>                               | <b>263</b>                       | <b>71 954</b> |
| <b>Balance as at 31 December 2017</b> | <b>53 983</b>     | <b>1 371</b>                               | <b>100</b>                       | <b>55 457</b> |

Cost of intangible assets, which are fully depreciated but still used by the Bank as at 31 December 2017 amounted 110,1 mil. Eur (2016: 91,3 mil. Eur).

As at 31 December 2017 the Bank owned intangible assets not yet put in use in the amount of 5,8 mil. Eur (2016: 5,9 mil. Eur).

During the year 2017 the Bank put in use upgrade of the core banking system, which amounted 7,1 mil. Eur (2016: 6,0 mil. Eur).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

## 22 Tax assets and liabilities

The structure of tax assets and liabilities was as follows:

| EUR ths.                                                       | Tax assets    |               | Tax liabilities |                 | Through PL        | Through OCI    | Total        |
|----------------------------------------------------------------|---------------|---------------|-----------------|-----------------|-------------------|----------------|--------------|
|                                                                | 2016          | 2017          | 2016            | 2017            | Net variance 2017 |                |              |
| <b>Assets</b>                                                  |               |               |                 |                 |                   |                |              |
| Financial assets available for sale                            | -             | -             | (21 811)        | (25 094)        | (133)             | (2 928)        | (3 283)      |
| Loans and receivables                                          | 46 022        | 46 612        | -               | -               | 590               | -              | 590          |
| Tangible assets                                                | -             | -             | (2 466)         | (1 834)         | 632               | -              | 632          |
| Tax loss carried forward                                       | 1 726         | 777           | -               | -               | (949)             | -              | (949)        |
| Other assets                                                   | 112           | 97            | -               | -               | (15)              | -              | (15)         |
| <b>Liabilities</b>                                             |               |               |                 |                 |                   |                |              |
| Provisions                                                     | 2 414         | 3 450         | -               | -               | 1 036             | -              | 1 036        |
| Pensions and other post employment defined benefit obligations | 985           | 626           | -               | -               | (487)             | 128            | (359)        |
| Other liabilities                                              | 7 405         | 9 124         | -               | -               | 1 719             | -              | 1 719        |
| <b>Gross deferred taxes</b>                                    | <b>58 664</b> | <b>60 686</b> | <b>(24 277)</b> | <b>(26 928)</b> | <b>2 393</b>      | <b>(2 800)</b> | <b>(629)</b> |
| Net deferred taxes                                             | 34 388        | 33 758        | -               | -               | -                 | -              | -            |
| Total current taxes                                            | -             | -             | (4 007)         | -               | -                 | -              | -            |
| <b>Total taxes</b>                                             | <b>34 388</b> | <b>33 758</b> | <b>(4 007)</b>  | <b>-</b>        | <b>-</b>          | <b>-</b>       | <b>-</b>     |

The Bank applies conservative approach for the recognition of deferred tax assets and liabilities. Deferred tax liabilities are recognised in their full amount. Deferred tax assets are recognised only up to the amount, in which the Bank expects realisation of tax benefits in the future.

Deferred tax assets and liabilities are offset in accordance with the Bank's accounting policy.

Further information on taxes on income are disclosed in the note 10.

## 23 Other assets

| EUR ths.                                         | 2016          | 2017          |
|--------------------------------------------------|---------------|---------------|
| Client settlement                                | 8 120         | 6 813         |
| Trade receivables                                | 9 586         | 10 042        |
| Personnel balances                               | 6 357         | 6 033         |
| State budget, social and health insurance, taxes | -             | 1 660         |
| Sundry assets                                    | 199           | 372           |
| <b>Total</b>                                     | <b>24 262</b> | <b>24 920</b> |

## 24 Financial liabilities measured at amortised costs

### Deposits from banks

| EUR ths.              | 2016           | 2017           |
|-----------------------|----------------|----------------|
| Overnight deposits    | 3 157          | 3 086          |
| Term deposits         | 147 764        | 406 621        |
| Repurchase agreements | 127 272        | 78 857         |
| <b>Total</b>          | <b>278 193</b> | <b>488 564</b> |

### Deposits from customers

| EUR ths.                                             | 2016              | 2017              |
|------------------------------------------------------|-------------------|-------------------|
| <b>Current accounts / Overnight deposits</b>         | <b>6 052 587</b>  | <b>6 847 060</b>  |
| Non-savings deposits                                 | 6 052 587         | 6 847 060         |
| General governments                                  | 88 624            | 84 854            |
| Other financial corporations                         | 221 394           | 262 002           |
| Non-financial corporations                           | 1 314 707         | 1 348 118         |
| Households                                           | 4 427 862         | 5 152 086         |
| <b>Term deposits - Deposits with agreed maturity</b> | <b>2 944 384</b>  | <b>2 814 788</b>  |
| Non-savings deposits                                 | 2 944 384         | 2 814 788         |
| General governments                                  | 103 369           | 351 532           |
| Other financial corporations                         | 125 611           | 264 724           |
| Non-financial corporations                           | 286 093           | 320 705           |
| Households                                           | 2 429 311         | 1 877 827         |
| <b>Deposits redeemable at notice</b>                 | <b>2 392 407</b>  | <b>2 819 374</b>  |
| Households                                           | 2 392 407         | 2 819 374         |
| <b>General governments</b>                           | <b>191 993</b>    | <b>436 386</b>    |
| <b>Other financial corporations</b>                  | <b>347 005</b>    | <b>526 726</b>    |
| <b>Non-financial corporations</b>                    | <b>1 600 800</b>  | <b>1 668 823</b>  |
| <b>Households</b>                                    | <b>9 249 580</b>  | <b>9 849 286</b>  |
| <b>Total</b>                                         | <b>11 389 378</b> | <b>12 481 221</b> |

As at 31 December 2017, no deposits from customers were collateralised by securities (neither at the year-end 2016).

As at 31 December 2017, no embedded derivatives were included in deposits from customers (neither at the year-end 2016).

As at 31 December 2017 liabilities related to settlement of securities transactions and clearing of payment transactions in the amount of 91,0 mil. Eur are disclosed in the line item 'Other financial liabilities'. In the year 2016 these liabilities amounted 74,5 mil. Eur and were presented as client settlement in the line item 'Other liabilities'.

## 25 Debt securities issued

| EUR ths.                            | 2016             | 2017             |
|-------------------------------------|------------------|------------------|
| Subordinated liabilities            | 74 785           | 77 446           |
| Subordinated debt securities issued | 74 785           | 77 446           |
| Other debt securities issued        | 1 242 622        | 1 489 770        |
| Bonds / Certificates                | 139 311          | 185 655          |
| Mortgage covered bonds              | 1 103 311        | 1 304 115        |
| <b>Total</b>                        | <b>1 317 407</b> | <b>1 567 216</b> |

### Subordinated debt securities issued

The subordinated debt securities issued listed in the following table and marked as 'Subordinated bonds\*' included embedded derivatives, which were separated and disclosed on the balance sheet line item 'Financial liabilities – held for trading'. As at 31 December 2017 fair value of these derivatives amounted 0,2 mil. Eur (2016: 0,9 mil. Eur).

The interest rate shown below represents actual interest expense of the Bank.

| EUR ths.            | Issue Date    | Maturity Date | Interest Rate | Number of securities | Nominal | Currency | 2016          | 2017          |
|---------------------|---------------|---------------|---------------|----------------------|---------|----------|---------------|---------------|
| Subordinated Bonds  | June 2011     | June 2018     | 4,25%         | 700                  | 10 000  | EUR      | 6 850         | 6 956         |
| Subordinated Bonds  | June 2011     | June 2018     | 4,90%         | 132                  | 50 000  | EUR      | 6 611         | 6 611         |
| Subordinated Bonds* | October 2011  | October 2018  | 4,00%         | 543                  | 10 000  | EUR      | 5 222         | 5 345         |
| Subordinated Bonds* | December 2011 | December 2018 | 4,00%         | 407                  | 10 000  | EUR      | 3 885         | 3 965         |
| Subordinated Bonds* | August 2010   | August 2020   | 4,30%         | 10 000               | 1 000   | EUR      | 12 456        | 12 945        |
| Subordinated Bonds* | August 2011   | August 2021   | 4,30%         | 10 000               | 1 000   | EUR      | 11 940        | 12 420        |
| Subordinated Bonds* | June 2012     | June 2022     | 5,80%         | 11 000               | 1 000   | EUR      | 13 005        | 13 721        |
| Subordinated Bonds* | November 2012 | November 2022 | 4,30%         | 9 000                | 1 000   | EUR      | 9 918         | 10 371        |
| Subordinated Bonds* | November 2011 | November 2023 | 4,58%         | 4 250                | 1 000   | EUR      | 4 897         | 5 114         |
| <b>Total</b>        |               |               |               |                      |         |          | <b>74 785</b> | <b>77 446</b> |

### Other debt securities issued

All securities listed in the following table are issued in book-entry form as bearer or registered securities with annual or semi-annual coupon payments. Their transferability is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to these securities. All securities are unsecured. The bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2017 other debt securities issued included embedded derivatives (equity and commodities) in the amount of 0,3 mil. Eur (2016: 0,4 mil. Eur), which were separated and disclosed in the line items 'Financial assets – held for trading' and 'Financial liabilities – held for trading'.

The interest rate shown below represents actual interest expense of the Bank.

| EUR ths.                | Issue Date     | Maturity Date  | Interest Rate | Number of securities | Nominal | Currency | 2016    | 2017    |
|-------------------------|----------------|----------------|---------------|----------------------|---------|----------|---------|---------|
| Mortgage Covered Bonds  | July 2012      | January 2017   | -             | -                    | 1 000   | EUR      | 8 089   | -       |
| Investment Certificates | January 2016   | January 2017   | -             | -                    | 50 000  | NOK      | 1 214   | -       |
| Investment Certificates | February 2016  | February 2017  | -             | -                    | 50 000  | NOK      | 535     | -       |
| Senior Unsecured Bonds  | March 2011     | March 2017     | -             | -                    | 50 000  | EUR      | 2 473   | -       |
| Mortgage Covered Bonds  | April 2014     | April 2017     | -             | -                    | 50 000  | EUR      | 15 082  | -       |
| Mortgage Covered Bonds  | May 2012       | May 2017       | -             | -                    | 50 000  | EUR      | 35 768  | -       |
| Senior Unsecured Bonds  | May 2014       | May 2017       | -             | -                    | 5 000   | PLN      | 1 087   | -       |
| Mortgage Covered Bonds  | June 2012      | June 2017      | -             | -                    | 50 000  | EUR      | 20 323  | -       |
| Investment Certificates | June 2016      | June 2017      | -             | -                    | 1 000   | EUR      | 392     | -       |
| Mortgage Covered Bonds  | July 2014      | July 2017      | -             | -                    | 50 000  | EUR      | 56 000  | -       |
| Senior Unsecured Bonds  | July 2014      | July 2017      | -             | -                    | 100     | EUR      | 2 054   | -       |
| Mortgage Covered Bonds  | February 2011  | August 2017    | -             | -                    | 50 000  | EUR      | 2 586   | -       |
| Investment Certificates | October 2016   | October 2017   | -             | -                    | 10 000  | EUR      | 1 186   | -       |
| Mortgage Covered Bonds  | October 2012   | October 2017   | -             | -                    | 50 000  | EUR      | 15 050  | -       |
| Mortgage Covered Bonds  | February 2013  | February 2018  | 1,75%         | 460                  | 50 000  | EUR      | 23 353  | 23 353  |
| Investment Certificates | March 2016     | March 2018     | 3,45%         | 1 260                | 1 000   | EUR      | 1 339   | 1 284   |
| Mortgage Covered Bonds  | March 2015     | March 2018     | 0,50%         | 250                  | 100 000 | EUR      | 25 102  | 25 102  |
| Mortgage Covered Bonds  | March 2014     | March 2018     | 1,22%         | 400                  | 50 000  | EUR      | 20 197  | 20 197  |
| Mortgage Covered Bonds  | March 2015     | March 2018     | 0,44%         | 100                  | 100 000 | EUR      | 10 035  | 10 035  |
| Mortgage Covered Bonds  | March 2016     | March 2018     | 0,13%         | 620                  | 100 000 | EUR      | 62 005  | 62 052  |
| Investment Certificates | March 2016     | March 2018     | 3,05%         | 734                  | 1 000   | EUR      | 775     | 746     |
| Mortgage Covered Bonds  | March 2015     | March 2018     | 0,01%         | 240                  | 100 000 | EUR      | 24 003  | 24 000  |
| Investment Certificates | April 2017     | April 2018     | 7,65%         | 58                   | 10 000  | EUR      | -       | 627     |
| Investment Certificates | July 2017      | July 2018      | 7,30%         | 121                  | 5 000   | EUR      | -       | 656     |
| Mortgage Covered Bonds  | August 2014    | August 2018    | 0,50%         | 900                  | 50 000  | EUR      | 45 021  | 45 058  |
| Mortgage Covered Bonds  | September 2012 | September 2018 | 2,85%         | 9 934                | 1 000   | EUR      | 10 052  | 10 008  |
| Investment Certificates | November 2015  | November 2018  | 4,00%         | 570                  | 1 000   | EUR      | 621     | 595     |
| Investment Certificates | November 2017  | November 2018  | 7,00%         | 300                  | 5 000   | EUR      | -       | 1 741   |
| Investment Certificates | November 2017  | November 2018  | 7,00%         | 296                  | 5 000   | EUR      | -       | 1 497   |
| Senior Unsecured Bonds  | December 2012  | December 2018  | 2,00%         | 1 836                | 1 000   | EUR      | 2 020   | 1 839   |
| Mortgage Covered Bonds  | December 2013  | December 2018  | 0,18%         | 600                  | 50 000  | EUR      | 30 003  | 30 002  |
| Investment Certificates | December 2013  | December 2018  | 5,00%         | 612                  | 1 000   | EUR      | 658     | 635     |
| Mortgage Covered Bonds  | February 2015  | February 2019  | 0,11%         | 500                  | 100 000 | EUR      | 50 038  | 50 021  |
| Mortgage Covered Bonds  | February 2013  | February 2019  | 2,30%         | 4 945                | 1 000   | EUR      | 4 994   | 4 986   |
| Mortgage Covered Bonds  | March 2016     | March 2019     | 0,13%         | 60                   | 100 000 | EUR      | 6 004   | 6 002   |
| Mortgage Covered Bonds  | March 2013     | March 2019     | 2,30%         | 4 895                | 1 000   | EUR      | 4 962   | 4 929   |
| Investment Certificates | March 2014     | March 2019     | 4,00%         | 784                  | 1 000   | EUR      | 846     | 822     |
| Investment Certificates | March 2014     | March 2019     | 5,25%         | 514                  | 5 000   | PLN      | 617     | 640     |
| Investment Certificates | April 2016     | April 2019     | 3,40%         | 639                  | 1 000   | EUR      | 697     | 674     |
| Mortgage Covered Bonds  | April 2013     | April 2019     | 2,30%         | 4 906                | 1 000   | EUR      | 4 977   | 4 930   |
| Mortgage Covered Bonds  | May 2017       | May 2019       | 0,00%         | 1 000                | 100 000 | EUR      | -       | 99 932  |
| Investment Certificates | July 2016      | July 2019      | 2,80%         | 340                  | 1 000   | EUR      | 372     | 361     |
| Mortgage Covered Bonds  | August 2013    | August 2019    | 2,00%         | 2 565                | 1 000   | EUR      | 2 592   | 2 586   |
| Mortgage Covered Bonds  | August 2013    | August 2019    | 2,00%         | 4 275                | 1 000   | EUR      | 4 319   | 4 306   |
| Senior Unsecured Bonds  | September 2014 | September 2019 | 1,07%         | 1 000                | 100 000 | EUR      | 100 297 | 100 296 |
| Mortgage Covered Bonds  | September 2013 | September 2019 | 2,00%         | 6 387                | 1 000   | EUR      | 6 439   | 6 422   |
| Senior Unsecured Bonds  | September 2014 | September 2019 | 1,50%         | 14 359               | 1 000   | EUR      | 14 642  | 14 414  |
| Mortgage Covered Bonds  | October 2013   | October 2019   | 2,00%         | 5 870                | 1 000   | EUR      | 5 899   | 5 893   |
| Mortgage Covered Bonds  | November 2013  | November 2019  | 2,00%         | 6 653                | 1 000   | EUR      | 6 685   | 6 668   |
| Senior Unsecured Bonds  | December 2013  | December 2019  | 1,50%         | 572                  | 1 000   | EUR      | 637     | 610     |
| Mortgage Covered Bonds  | December 2013  | December 2019  | 2,05%         | 70                   | 50 000  | EUR      | 3 504   | 3 504   |
| Mortgage Covered Bonds  | December 2012  | December 2019  | 2,50%         | 66                   | 50 000  | EUR      | 3 305   | 3 305   |
| Mortgage Covered Bonds  | June 2013      | December 2019  | 2,00%         | 4 164                | 1 000   | EUR      | 4 180   | 4 168   |
| Mortgage Covered Bonds  | December 2013  | December 2019  | 2,00%         | 9 610                | 1 000   | EUR      | 9 634   | 9 616   |
| Mortgage Covered Bonds  | July 2013      | January 2020   | 2,00%         | 2 226                | 1 000   | EUR      | 2 256   | 2 247   |
| Investment Certificates | February 2016  | February 2020  | 4,10%         | 131                  | 5 000   | EUR      | 755     | 726     |

| EUR ths.                | Issue Date     | Maturity Date  | Interest Rate | Number of securities | Nominal | Currency | 2016             | 2017             |
|-------------------------|----------------|----------------|---------------|----------------------|---------|----------|------------------|------------------|
| Investment Certificates | February 2016  | February 2020  | 4,20%         | 210                  | 1 000   | EUR      | 254              | 233              |
| Mortgage Covered Bonds  | March 2015     | March 2020     | 1,25%         | 4 244                | 1 000   | EUR      | 4 262            | 4 262            |
| Mortgage Covered Bonds  | June 2015      | June 2020      | 1,20%         | 4 947                | 1 000   | EUR      | 4 961            | 4 950            |
| Investment Certificates | June 2016      | June 2020      | 3,70%         | 400                  | 1 000   | EUR      | 453              | 438              |
| Mortgage Covered Bonds  | July 2015      | July 2020      | 1,20%         | 4 972                | 1 000   | EUR      | 5 016            | 4 998            |
| Mortgage Covered Bonds  | July 2015      | July 2020      | 0,88%         | 500                  | 100 000 | EUR      | 50 090           | 50 116           |
| Mortgage Covered Bonds  | February 2014  | August 2020    | 2,00%         | 9 937                | 1 000   | EUR      | 10 027           | 10 017           |
| Investment Certificates | August 2016    | August 2020    | 3,00%         | 339                  | 1 000   | EUR      | 384              | 373              |
| Mortgage Covered Bonds  | August 2015    | August 2020    | 1,20%         | 4 997                | 1 000   | EUR      | 5 018            | 5 018            |
| Mortgage Covered Bonds  | September 2015 | September 2020 | 1,20%         | 4 315                | 1 000   | EUR      | 4 346            | 4 329            |
| Mortgage Covered Bonds  | October 2015   | October 2020   | 1,20%         | 3 552                | 1 000   | EUR      | 3 581            | 3 559            |
| Mortgage Covered Bonds  | November 2015  | November 2020  | 0,63%         | 400                  | 100 000 | EUR      | 40 024           | 40 028           |
| Mortgage Covered Bonds  | November 2014  | November 2020  | 0,88%         | 150                  | 100 000 | EUR      | 15 016           | 15 016           |
| Mortgage Covered Bonds  | May 2016       | November 2020  | 0,13%         | 500                  | 100 000 | EUR      | 50 011           | 50 007           |
| Mortgage Covered Bonds  | November 2015  | November 2020  | 1,20%         | 3 005                | 1 000   | EUR      | 3 081            | 3 008            |
| Mortgage Covered Bonds  | February 2016  | February 2021  | 0,50%         | 500                  | 100 000 | EUR      | 50 213           | 50 216           |
| Mortgage Covered Bonds  | March 2016     | March 2021     | 1,05%         | 6 992                | 1 000   | EUR      | 7 031            | 7 015            |
| Mortgage Covered Bonds  | March 2014     | March 2021     | 2,00%         | 8 487                | 1 000   | EUR      | 8 562            | 8 534            |
| Mortgage Covered Bonds  | April 2016     | April 2021     | 1,05%         | 4 961                | 1 000   | EUR      | 4 988            | 4 973            |
| Mortgage Covered Bonds  | April 2008     | April 2021     | 5,00%         | 250                  | 66 388  | EUR      | 17 184           | 17 184           |
| Mortgage Covered Bonds  | May 2016       | May 2021       | 1,00%         | 4 988                | 1 000   | EUR      | 5 005            | 4 996            |
| Mortgage Covered Bonds  | May 2014       | May 2021       | 1,90%         | 4 975                | 1 000   | EUR      | 5 000            | 4 988            |
| Mortgage Covered Bonds  | June 2016      | June 2021      | 0,00%         | 3 998                | 1 000   | EUR      | 3 858            | 3 871            |
| Mortgage Covered Bonds  | June 2014      | June 2021      | 1,75%         | 9 450                | 1 000   | EUR      | 9 527            | 9 460            |
| Mortgage Covered Bonds  | July 2016      | July 2021      | 0,90%         | 4 990                | 1 000   | EUR      | 5 022            | 5 012            |
| Mortgage Covered Bonds  | July 2014      | July 2021      | 1,55%         | 3 515                | 1 000   | EUR      | 3 571            | 3 540            |
| Mortgage Covered Bonds  | August 2016    | August 2021    | 0,80%         | 4 995                | 1 000   | EUR      | 5 011            | 5 011            |
| Mortgage Covered Bonds  | August 2016    | August 2021    | 0,75%         | 4 989                | 1 000   | EUR      | 5 013            | 5 002            |
| Mortgage Covered Bonds  | September 2016 | September 2021 | 0,70%         | 4 953                | 1 000   | EUR      | 5 008            | 4 962            |
| Mortgage Covered Bonds  | October 2016   | October 2021   | 0,65%         | 4 975                | 1 000   | EUR      | 4 996            | 4 981            |
| Mortgage Covered Bonds  | November 2016  | November 2021  | 0,25%         | 1 000                | 100 000 | EUR      | 99 994           | 100 000          |
| Mortgage Covered Bonds  | December 2015  | December 2021  | 0,63%         | 200                  | 100 000 | EUR      | 19 998           | 20 000           |
| Mortgage Covered Bonds  | December 2016  | December 2021  | 0,65%         | 9 944                | 1 000   | EUR      | 10 002           | 9 946            |
| Senior Unsecured Bonds  | December 2016  | December 2021  | 0,65%         | 4 977                | 1 000   | EUR      | 5 001            | 4 978            |
| Mortgage Covered Bonds  | February 2015  | February 2022  | 0,88%         | 350                  | 100 000 | EUR      | 35 250           | 35 256           |
| Mortgage Covered Bonds  | March 2014     | March 2022     | 2,00%         | 220                  | 50 000  | EUR      | 11 098           | 11 111           |
| Senior Unsecured Bonds  | March 2017     | March 2022     | 0,60%         | 4 980                | 1 000   | EUR      | 0                | 5 003            |
| Senior Unsecured Bonds  | April 2017     | April 2022     | 0,60%         | 30                   | 100 000 | EUR      | 0                | 3 013            |
| Senior Unsecured Bonds  | April 2017     | April 2022     | 0,60%         | 4 961                | 1 000   | EUR      | 0                | 4 981            |
| Senior Unsecured Bonds  | May 2017       | May 2022       | 0,60%         | 4 967                | 1 000   | EUR      | 0                | 4 985            |
| Mortgage Covered Bonds  | June 2017      | June 2022      | 0,38%         | 50                   | 100 000 | EUR      | 0                | 4 996            |
| Senior Unsecured Bonds  | July 2017      | July 2022      | 0,60%         | 4 995                | 1 000   | EUR      | 0                | 5 008            |
| Mortgage Covered Bonds  | August 2015    | August 2022    | 1,00%         | 100                  | 100 000 | EUR      | 10 006           | 10 012           |
| Senior Unsecured Bonds  | August 2017    | August 2022    | 0,63%         | 4 967                | 1 000   | EUR      | 0                | 4 979            |
| Senior Unsecured Bonds  | September 2017 | September 2022 | 0,63%         | 5 000                | 1 000   | EUR      | 0                | 5 009            |
| Senior Unsecured Bonds  | September 2017 | September 2022 | 0,63%         | 9 900                | 1 000   | EUR      | 0                | 9 916            |
| Mortgage Covered Bonds  | October 2017   | October 2022   | 0,50%         | 1 500                | 100 000 | EUR      | 0                | 149 924          |
| Senior Unsecured Bonds  | November 2017  | November 2022  | 2,00%         | 5 000                | 1 000   | USD      | 0                | 4 180            |
| Mortgage Covered Bonds  | January 2013   | January 2025   | 3,10%         | 87                   | 50 000  | EUR      | 4 412            | 4 412            |
| Mortgage Covered Bonds  | March 2017     | March 2025     | 0,75%         | 1 000                | 100 000 | EUR      | 0                | 100 305          |
| Mortgage Covered Bonds  | August 2015    | August 2025    | 1,38%         | 100                  | 100 000 | EUR      | 9 990            | 9 997            |
| Mortgage Covered Bonds  | March 2016     | March 2026     | 1,00%         | 90                   | 100 000 | EUR      | 8 977            | 8 986            |
| Mortgage Covered Bonds  | July 2007      | July 2027      | 4,95%         | 250                  | 66 388  | EUR      | 24 194           | 23 283           |
| Senior Unsecured Bonds  | November 2017  | November 2027  | 1,38%         | 44                   | 100 000 | EUR      | 0                | 4 398            |
| Mortgage Covered Bonds  | June 2013      | June 2028      | 3,00%         | 132                  | 50 000  | EUR      | 6 615            | 6 615            |
| Mortgage Covered Bonds  | February 2014  | February 2029  | 2,80%         | 97                   | 50 000  | EUR      | 4 899            | 4 899            |
| <b>Total</b>            |                |                |               |                      |         |          | <b>1 242 622</b> | <b>1 489 770</b> |

## 26 Provisions

| EUR ths.                                                                | 2016          | 2017          |
|-------------------------------------------------------------------------|---------------|---------------|
| Long-term employee benefits provisions                                  | 5 167         | 2 982         |
| Restructuring provision                                                 | -             | 1 341         |
| Pending legal issues and tax litigation                                 | 5 765         | 5 653         |
| Commitments and guarantees given                                        | 11 494        | 15 091        |
| Provisions for guarantees - off balance sheet (defaulted customers)     | 1 083         | 8 578         |
| Provisions for guarantees - off balance sheet (non-defaulted customers) | 10 411        | 6 513         |
| <b>Total</b>                                                            | <b>22 426</b> | <b>25 067</b> |

### Long-term employee benefits provisions

The Bank has a defined employee benefit program under which all employees are entitled to a lump-sum payment upon working anniversaries or retirement. The number of employees under this program is disclosed in the note 6.

The amount of long-term employee benefits provisions is calculated using an actuarial model based on the projected unit credit method. In the year 2017 the Bank has performed an annual review of the long-term employee benefits provisions using updated data in order to recognize the provisions in appropriate amounts.

The amounts relating to long-term employee benefits provisions recognised on the balance sheet and the income statement were as follows:

| EUR ths.                                | Pension provision | Working anniversaries provision | Total        |
|-----------------------------------------|-------------------|---------------------------------|--------------|
| <b>As at 1 January 2016</b>             | <b>2 605</b>      | <b>2 171</b>                    | <b>4 776</b> |
| Service cost                            | 203               | 262                             | 465          |
| Interest cost                           | 41                | 34                              | 75           |
| Payments                                | (101)             | (168)                           | (269)        |
| Actuarial (gains)/losses                | 83                | (5)                             | 78           |
| from changes in demographic assumptions | (4)               | (2)                             | (6)          |
| from changes in financial assumptions   | 215               | 123                             | 338          |
| from changes in experience assumptions  | (128)             | (126)                           | (254)        |
| <b>As at 31 December 2016</b>           | <b>2 873</b>      | <b>2 294</b>                    | <b>5 167</b> |
| Service cost                            | 223               | 36                              | 259          |
| Interest cost                           | 19                | 15                              | 34           |
| Payments                                | (322)             | (69)                            | (391)        |
| Actuarial (gains)/losses                | (174)             | (1 913)                         | (2 087)      |
| from changes in demographic assumptions | 14                | 4                               | 18           |
| from changes in financial assumptions   | (233)             | (113)                           | (346)        |
| from changes in experience assumptions  | 45                | (1 804)                         | (1 759)      |
| <b>As at 31 December 2017</b>           | <b>2 618</b>      | <b>364</b>                      | <b>2 982</b> |

In the year 2017 the working anniversaries provision decreased due to changes in the employee benefit program conditions.



The actuarial calculation of pension provision used the following assumptions:

| Pension provision                        | 2016             | 2017             |
|------------------------------------------|------------------|------------------|
| Annual discount rate                     | 0,65%            | 1,46%            |
| Annual rate of salary increase in future | 0,00%            | 0,00%            |
| Annual employee turnover                 | 4,16 % - 16,40 % | 5,96 % - 15,88 % |
| Retirement age                           | 62 years         | 62 years         |

The actuarial calculation of working anniversaries provision used the following assumptions:

| Working anniversaries provision          | 2016             | 2017             |
|------------------------------------------|------------------|------------------|
| Annual discount rate                     | 0,65%            | 1,46%            |
| Annual rate of salary increase in future | 0,00%            | 0,00%            |
| Annual employee turnover                 | 4,16 % - 16,40 % | 5,96 % - 15,88 % |
| Retirement age                           | 62 years         | 62 years         |

In the calculation of long-term employee benefits provisions official mortality tables published by the Statistical Office were used.

#### Provisions for legal issues

Provisions for legal issues relate to legal cases where the Bank is sued and which arose from normal banking activities.

#### Restructuring provision

Restructuring provision was created in December 2017 in the amount of 1,3 mil. Eur based on the decision of the Board of Directors following the measures agreed to improve efficiency

of the Bank's processes that are essential in order to meet strict requirements and expectations of the Bank's stakeholders for its performance in a short-term future. The Bank intends to use this provision during the year 2018.

#### Provisions for off-balance sheet

Provisions for off-balance sheet were created to cover losses incurred in unused loan commitments, guarantees and letters of credits. The amount of these provisions is estimated with respect to credit risk relating to affected items, as well as time value of money (i.e. current market interest rates used for discounting).

The following table presents development of provision:

| EUR ths.                                          | 2016          | Additions     | Use            | Release         | Exchange-rate and other changes | 2017          |
|---------------------------------------------------|---------------|---------------|----------------|-----------------|---------------------------------|---------------|
| Restructuring provision                           | -             | 1 341         | -              | -               | -                               | 1 341         |
| Pending legal issues and tax litigation           | 5 765         | 906           | (697)          | (321)           | -                               | 5 653         |
| Provisions for contingent credit risk liabilities | 11 494        | 28 071        | -              | (24 519)        | 7                               | 15 091        |
| Other provisions                                  | -             | 8 500         | (3 556)        | (4 944)         | -                               | -             |
| <b>Total</b>                                      | <b>17 259</b> | <b>38 818</b> | <b>(4 253)</b> | <b>(29 784)</b> | <b>7</b>                        | <b>22 085</b> |

| EUR ths.                                          | 2015          | Additions     | Use          | Release         | Exchange-rate and other changes | 2016          |
|---------------------------------------------------|---------------|---------------|--------------|-----------------|---------------------------------|---------------|
| Pending legal issues and tax litigation           | 7 087         | 1 304         | (1 266)      | (1 360)         | -                               | 5 765         |
| Provisions for contingent credit risk liabilities | 15 908        | 28 314        | -            | (32 732)        | 4                               | 11 494        |
| Other provisions                                  | 298           | (8 972)       | 6 467        | 2 207           | -                               | -             |
| <b>Total</b>                                      | <b>23 293</b> | <b>20 646</b> | <b>5 201</b> | <b>(31 885)</b> | <b>4</b>                        | <b>17 259</b> |

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

## 27 Other liabilities

| EUR ths.                                         | 2016           | 2017          |
|--------------------------------------------------|----------------|---------------|
| Client settlement                                | 74 544         | -             |
| Trade payables                                   | 43 607         | 41 149        |
| Personnel balances and social fund               | 34 848         | 36 084        |
| State budget, social and health insurance, taxes | 4 398          | 4 431         |
| Sundry liabilities                               | 3 585          | -             |
| <b>Total</b>                                     | <b>160 982</b> | <b>81 664</b> |

As at 31 December 2017 liabilities related to settlement of securities transactions and clearing of payment transactions in the amount of 91,0 mil. Eur are disclosed in the line item 'Other financial liabilities'. In the year 2016 these liabilities amounted 74,5 mil. Eur and were presented as client settlement in the line item 'Other liabilities'.

Social fund liability, which is included in the line item 'Other liabilities', developed as follows:

| EUR ths.                 | 2016         | 2017         |
|--------------------------|--------------|--------------|
| <b>As at 1 January</b>   | <b>298</b>   | <b>1 027</b> |
| Additions                | 3 503        | 2 223        |
| Withdrawals              | (2 774)      | (1 987)      |
| <b>As at 31 December</b> | <b>1 027</b> | <b>1 264</b> |

## 28 Equity

### Share capital

The approved share capital was fully paid and consists of the following:

|                                 | 2016               | 2017               |
|---------------------------------|--------------------|--------------------|
| Nominal value of share (in EUR) | 1 000              | 1 000              |
| Number of shares (in pcs.)      | 212 000            | 212 000            |
| <b>Share capital (in EUR)</b>   | <b>212 000 000</b> | <b>212 000 000</b> |

The following table presents distribution of profits for the years 2016 (approved) and 2017 (proposal):

| Profit distribution                                        | 2016       | 2017       |
|------------------------------------------------------------|------------|------------|
| Profit for the year (in EUR ths.)                          | 212 221    | 162 056    |
| Distribution for Investment certificate 2015 SLSP AT1 PNC5 | 11 700     | 11 700     |
| Dividends paid to shareholder from profit for the year     | 190 495    | 142 838    |
| Transfer to retained earnings                              | 10 026     | 7 518      |
| Number of shares with nominal value of EUR 1 000 (in pcs.) | 212 000    | 212 000    |
| <b>Dividend per share (in EUR)</b>                         | <b>899</b> | <b>674</b> |

Dividends for the year 2016 were paid in April 2017 following the resolution of General Assembly of the Bank dated 27 March 2017.

### Other capital instruments

During the year 2015 the Bank has issued an investment certificate in the amount of 150 mil. Eur that is classified as equity instrument according to the standard IAS 32. This certificate is a perpetual instrument with the agreed interest rate of 7,8 % p.a. paid semi-annually.

### Legal reserve fund

According to Commercial Code all companies are required to create a legal reserve fund to cover adverse financial conditions in the future. The Bank is obliged to contribute to the fund the amount, which is not less than 10 % of its annual net profit until the cumulative amount of annual contributions reaches 20 % of its share capital. As at 31 December 2017 Legal reserve fund amounted 79,8 mil. Eur (2016: 79,8 mil. Eur) and in both years exceeded the required 20 % of the share capital. Legal reserve fund is not available for distribution to the shareholder.

### Other funds

Other funds include only Statutory fund created from distributable profits to strengthen the Bank's capital base. This fund is not

available for distribution to the shareholder. Once the Bank's share capital or legal reserve fund is increased, Statutory fund may be terminated and transferred back to the distributable profits with the approval of the Supervisory Board and of the General Assembly. As at 31 December 2017 Statutory fund amounted 39,1 mil. Eur (2016: 39,1 mil. Eur).

### Available for sale reserve

Available for sale reserve represents the unrealised revaluation of the securities available for sale. This reserve is not available for distribution to the shareholder. As at 31 December 2017 available for sale reserve amounted 94,7 mil. Eur (2016: 83,7 mil. Eur), net of deferred tax.

### Remeasurement of net liability of defined pension plans

This equity component reflects the results of actuarial calculations related to the pension provision. As at 31 December 2017 the remeasurement of the pension provision amounted 0,5 mil. Eur (2016: 0,8 mil. Eur), net of deferred tax.

## 29 Related party transactions

### Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by the only shareholder Erste Group Bank AG, which directly owns 100 % share on the voting rights of the Bank. Further

related parties include subsidiaries, which are under control of the Bank and associates, over which the Bank has significant influence. Moreover, other members of the Erste group are also related parties of the Bank.

Transactions with related parties occur in the normal course of business and primarily include loans and deposits. These transactions are performed at arm's length, i.e. the terms and conditions applied respect market conditions.

Assets and liabilities include accounting balances with related parties, as follows:

| EUR ths.                                     | Erste Group Bank AG |                | Companies of Erste Group |                | Subsidiaries  |               | Associates |          |
|----------------------------------------------|---------------------|----------------|--------------------------|----------------|---------------|---------------|------------|----------|
|                                              | 2016                | 2017           | 2016                     | 2017           | 2016          | 2017          | 2016       | 2017     |
| <b>Assets</b>                                |                     |                |                          |                |               |               |            |          |
| Cash and cash balances                       | -                   | 3 467          | -                        | 49 835         | -             | -             | -          | -        |
| Derivatives                                  | 7 271               | 2 218          | 156                      | 93             | -             | -             | -          | -        |
| Loans and receivables to credit institutions | 17 084              | 135 716        | 13 782                   | 41 812         | -             | -             | -          | -        |
| Loans and receivables to customers           | -                   | -              | 40 639                   | 49 621         | 45 894        | 39 217        | -          | -        |
| Other assets                                 | 4 370               | 4 345          | 464                      | 935            | 36            | 7             | -          | -        |
| <b>Total</b>                                 | <b>28 725</b>       | <b>145 746</b> | <b>55 041</b>            | <b>142 296</b> | <b>45 930</b> | <b>39 223</b> | <b>-</b>   | <b>-</b> |
| <b>Liabilities</b>                           |                     |                |                          |                |               |               |            |          |
| Derivatives                                  | 34 464              | 31 358         | 2                        | 1              | -             | -             | -          | -        |
| Deposits from banks                          | 52 724              | 200 594        | 644                      | 690            | -             | -             | -          | -        |
| Deposits from customers                      | -                   | -              | 1 829                    | 2 616          | 5 028         | 3 095         | -          | -        |
| Debt securities issued                       | 100 297             | -              | -                        | -              | -             | -             | -          | -        |
| Derivatives – hedge accounting               | 52 389              | 42 100         | -                        | -              | -             | -             | -          | -        |
| Other liabilities                            | 1 297               | 1 123          | 7 537                    | 4 728          | -             | -             | -          | -        |
| <b>Total</b>                                 | <b>241 172</b>      | <b>275 175</b> | <b>10 012</b>            | <b>8 035</b>   | <b>5 028</b>  | <b>3 095</b>  | <b>-</b>   | <b>-</b> |

Income and expenses include transactions with the related parties, as follows:

| EUR ths.                                                                 | Erste Group Bank AG |              | Companies of Erste Group |              | Subsidiaries   |                | Associates   |              |
|--------------------------------------------------------------------------|---------------------|--------------|--------------------------|--------------|----------------|----------------|--------------|--------------|
|                                                                          | 2016                | 2017         | 2016                     | 2017         | 2016           | 2017           | 2016         | 2017         |
| Interest income                                                          | (7 568)             | (8 707)      | 1 250                    | 1 025        | 364            | 320            | -            | -            |
| Interest expense                                                         | (3 103)             | (3 801)      | (18)                     | (26)         | -              | -              | -            | -            |
| Dividend income                                                          | -                   | -            | 347                      | -            | 15             | 25             | 2 384        | 2 038        |
| Net fee and commission income                                            | 23                  | 83           | 6 006                    | 7 482        | 2              | 4              | -            | -            |
| Net trading and fair value result                                        | 1 020               | 21 269       | -                        | 285          | -              | -              | -            | -            |
| General administrative expenses                                          | (4 074)             | (5 197)      | (7 402)                  | (9 579)      | (7 506)        | (7 696)        | -            | -            |
| Other operating result                                                   | 625                 | 509          | 2 559                    | 2 538        | 91             | 98             | 2            | -            |
| Impairment of investments in subsidiaries, joint ventures and associates | -                   | -            | -                        | -            | -              | -              | -            | -            |
| <b>Total</b>                                                             | <b>(13 077)</b>     | <b>4 156</b> | <b>2 742</b>             | <b>1 725</b> | <b>(7 035)</b> | <b>(7 249)</b> | <b>2 386</b> | <b>2 038</b> |

The amounts with Erste Group Bank AG reported in the line items 'Interest income' and 'Net trading result' represent results from derivative instruments used to close positions with the clients.

In the year 2015 the Bank has issued investment certificates in the amount of 150 mil. Eur, which were purchased by Erste Bank AG (see note 28).

The Bank has received a guarantee from its parent company Erste Group Bank AG covering exposures towards Erste Group Immorent Slovensko s.r.o. As at 31 December 2017 the guarantee was in the amount of 23,2 mil. Eur (2016: 23,2 mil. Eur).

The Bank received guarantees from its parent company Erste Group Bank AG covering clients' exposures in the amount of 2,2 mil. Eur as at the reporting date (2016: 2,2 mil. Eur).

The Bank has received guarantee from its sister company Česká spořitelna, a.s. covering credit exposures towards s\_Autoleasing SK, s.r.o. , which is the Erste group member. As at 31 December 2017 the maximum amount of the guarantee was 27,6 mil. Eur (2016: 27,6 mil. Eur).

The Bank received guarantees from its sister company Česká spořitelna, a.s. covering clients' exposures in the amount of 0,9 mil. Eur as at the reporting date (2016: 1,2 mil. Eur).

The Bank also received a guarantee from its sister company Erste Bank AD Podgorica covering client's exposure in the amount of 0,1 mil. Eur as at the reporting date (2016: 0,1 mil. Eur).

As at 31 December 2017 the Bank owned a share in real estate fund Sporo realitny fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of 5,5 mil. Eur (2016: 5,7 mil. Eur).

#### **Transactions with key management personnel**

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2017 in form of short-term employee benefits amounted to 2,2 mil. Eur (2016: 2,2 mil. Eur). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

## 30 Off-balance sheet items

In the normal course of business, the Bank enters various contracts and transactions, which are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following information represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

### Loan commitments, guarantees and letters of credit

Bank guarantees and letters of credit are used by customers to cover their liabilities (payment and non-payment) against third parties, who are beneficiaries in these transactions. The primary purpose of these instruments is to ensure that funds are available to the customers as required.

Bank guarantee represents an irrevocable liability of the Bank to pay the agreed amount in case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Bank to pay the agreed amount to the seller based on the instruction of the buyer against the documents specified in the letter of credit

conditions. The Bank deals with letters of credit in accordance with the 'Unified Rules and Customs for Documentary Letter-of-credit' as published by the International Chamber of Commerce.

Guarantees and standby letters of credit are irrevocable assurances that the Bank will make payments in the event when the customer cannot meet its obligations against a third party and therefore these carry the same credit risk as loans. Documentary and commercial letters of credit are written undertakings of the Bank to provide a third party with the agreed amount on behalf of the customer under specific conditions. As these are collateralised by the underlying shipment of goods (or transfer of the right to use), they carry less credit risk than direct borrowings.

Loan commitment represent an unused portion of the authorised credit limit, which can be drawn in the form of loan, guarantee or letter of credit. In relation to loan commitments, the Bank is exposed to credit risk and a potential loss equals to the total amount of the loan commitment. However, most of the loan commitments are contingent upon maintaining specific credit standards by customers and therefore the likely amount of loss is less than the total amount of loan commitments.

The following table presents off-balance sheet credit exposures and also treasury commitments:

| EUR ths.                           | 2016             | 2017             |
|------------------------------------|------------------|------------------|
| Guarantees provided                | 286 301          | 319 122          |
| Guarantees from letter of credit   | 7 562            | 10 618           |
| Loan commitments and undrawn loans | 1 109 595        | 1 289 425        |
| <b>Total</b>                       | <b>1 403 458</b> | <b>1 619 165</b> |

## 31 Collaterals

The Bank holds collaterals against loans and advances to customers in form of real estates, securities, received bank guaranties and other credit enhancements. The fair values of collaterals are estimated based on their value at the time of borrowings and are regularly updated. In general, collaterals are not held against loans and advances to banks, except for securities held as a part of reverse repurchase agreements commented in the note 16.

Estimated fair values of collaterals and other credit enhancements

The following table presents types of collaterals received:

| EUR ths.        | 2016             | 2017             |
|-----------------|------------------|------------------|
| Real estates    | 9 029 796        | 8 695 001        |
| Securities      | 25 976           | 23 944           |
| Bank guaranties | 117 965          | 117 760          |
| Other           | 297 615          | 331 841          |
| <b>Total</b>    | <b>9 471 352</b> | <b>9 168 546</b> |

### Assets pledged as collaterals

The following table presents assets pledged as collaterals for the Bank's liabilities:

| 2017<br>EUR ths.                      | Carrying amount of transferred assets |                       |                                |                                  |                          | Carrying amount of associated liabilities |                       |                              |
|---------------------------------------|---------------------------------------|-----------------------|--------------------------------|----------------------------------|--------------------------|-------------------------------------------|-----------------------|------------------------------|
|                                       | Total                                 | Repurchase agreements | Assets pledged for derivatives | Assets pledged for covered bonds | Other transferred assets | Total                                     | Repurchase agreements | Other associated liabilities |
| Financial assets - available for sale | 191 439                               | 79 547                | 40 634                         | 63 299                           | 7 958                    | 169 781                                   | 78 857                | 90 924                       |
| Loans and receivables to customers    | 1 462 588                             | -                     | -                              | 1 462 588                        | -                        | 1 211 162                                 | -                     | 1 211 162                    |
| Financial assets - held to maturity   | 59 010                                | -                     | 10 061                         | 48 949                           | -                        | 49 836                                    | -                     | 49 836                       |
| <b>Total</b>                          | <b>1 713 037</b>                      | <b>79 547</b>         | <b>50 695</b>                  | <b>1 574 837</b>                 | <b>7 958</b>             | <b>1 430 779</b>                          | <b>78 857</b>         | <b>1 351 922</b>             |

| 2016<br>EUR ths.                      | Carrying amount of transferred assets |                       |                                |                                  |                          | Carrying amount of associated liabilities |                       |                              |
|---------------------------------------|---------------------------------------|-----------------------|--------------------------------|----------------------------------|--------------------------|-------------------------------------------|-----------------------|------------------------------|
|                                       | Total                                 | Repurchase agreements | Assets pledged for derivatives | Assets pledged for covered bonds | Other transferred assets | Total                                     | Repurchase agreements | Other associated liabilities |
| Financial assets - available for sale | 239 423                               | 128 637               | 50 426                         | 52 204                           | 8 156                    | 213 950                                   | 127 272               | 86 678                       |
| Loans and receivables to customers    | 1 297 728                             | -                     | -                              | 1 297 728                        | -                        | 1 023 660                                 | -                     | 1 023 660                    |
| Financial assets - held to maturity   | 58 764                                | -                     | 9 991                          | 48 773                           | -                        | 47 114                                    | -                     | 47 114                       |
| <b>Total</b>                          | <b>1 595 915</b>                      | <b>128 637</b>        | <b>60 418</b>                  | <b>1 398 704</b>                 | <b>8 156</b>             | <b>1 284 724</b>                          | <b>127 272</b>        | <b>1 157 452</b>             |

related to loans to customers, granted financial guarantees, letters of credit and undrawn loan commitments were as follows:

### Collaterals received

As at 31 December 2017 the Bank had collateralized loans in the amount of 8 709,8 mil. Eur (2016: 7 723,1 mil. Eur), which were covered by collaterals in the amount of 9 168,5 mil. Eur (2016: 9 471,4 mil. Eur). The uncollateralized loans amounted 3 591,6 mil. Eur (2016: 3 005,9 mil. Eur).



## 32 Offsetting of financial assets and financial liabilities

| 2017 | Gross amounts of recognised financial liabilities | Amounts of financial assets set off against financial liabilities | Net amounts of financial liabilities in the balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting |                         |                                       | Net amount after potential offsetting |
|------|---------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------|---------------------------------------|---------------------------------------|
|      |                                                   |                                                                   |                                                           | Financial instruments                                                               | Cash collateral pledged | Non-cash financial collateral pledged |                                       |

|                                |                |          |                |          |          |                |               |
|--------------------------------|----------------|----------|----------------|----------|----------|----------------|---------------|
| <b>Assets</b>                  |                |          |                |          |          |                |               |
| Derivatives                    | 36 484         | -        | 36 484         | -        | -        | -              | 36 484        |
| Derivatives - hedge accounting | 6 761          | -        | 6 761          | -        | -        | -              | 6 761         |
| <b>Total assets</b>            | <b>43 245</b>  | <b>-</b> | <b>43 245</b>  | <b>-</b> | <b>-</b> | <b>-</b>       | <b>43 245</b> |
| <b>Liabilities</b>             |                |          |                |          |          |                |               |
| Derivatives                    | 33 344         | -        | 33 344         | -        | -        | 26 152         | 7 191         |
| Derivatives - hedge accounting | 42 100         | -        | 42 100         | -        | -        | 20 714         | 21 386        |
| Repurchase agreements          | 78 857         | -        | 78 857         | -        | -        | 78 857         | -             |
| <b>Total liabilities</b>       | <b>154 301</b> | <b>-</b> | <b>154 301</b> | <b>-</b> | <b>-</b> | <b>125 723</b> | <b>28 577</b> |

| 2016 | Gross amounts of recognised financial liabilities | Amounts of financial assets set off against financial liabilities | Net amounts of financial liabilities in the balance sheet | Potential effects of netting agreements not qualifying for balance sheet offsetting |                         |                                       | Net amount after potential offsetting |
|------|---------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------|---------------------------------------|---------------------------------------|
|      |                                                   |                                                                   |                                                           | Financial instruments                                                               | Cash collateral pledged | Non-cash financial collateral pledged |                                       |

|                                |                |          |                |          |          |                |               |
|--------------------------------|----------------|----------|----------------|----------|----------|----------------|---------------|
| <b>Assets</b>                  |                |          |                |          |          |                |               |
| Derivatives                    | 44 814         | -        | 44 814         | -        | -        | -              | 44 814        |
| Derivatives - hedge accounting | 7 705          | -        | 7 705          | -        | -        | -              | 7 705         |
| <b>Total assets</b>            | <b>52 519</b>  | <b>-</b> | <b>52 519</b>  | <b>-</b> | <b>-</b> | <b>-</b>       | <b>52 519</b> |
| <b>Liabilities</b>             |                |          |                |          |          |                |               |
| Derivatives                    | 42 812         | -        | 42 812         | -        | -        | 27 225         | 15 587        |
| Derivatives - hedge accounting | 52 389         | -        | 52 389         | -        | -        | 25 033         | 27 357        |
| Repurchase agreements          | 127 272        | -        | 127 272        | -        | -        | 127 272        | -             |
| <b>Total liabilities</b>       | <b>222 473</b> | <b>-</b> | <b>222 473</b> | <b>-</b> | <b>-</b> | <b>179 530</b> | <b>42 944</b> |

## 33 Assets under administration

The Bank provides custody, trustee, investment management and advisory services to third parties, which involves making decisions on distribution, purchase and sale related to a wide range of financial instruments. The assets held in a fiduciary capacity are not included in these financial statements.

As at 31 December 2017 the Bank held assets for collective investment undertakings in the amount of 1 261,5 mil. Eur (2016: 1 132,3 mil. Eur).

As at 31 December 2017 the Bank also held assets for customers other than collective investment undertakings in the amount of 6 339,2 mil. Eur (2016: 4 238,1 mil. Eur).

## 34 Segment reporting

The segment reporting of the Bank is based on IFRS 8 - Operating segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the Chief Operating Decision Maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Bank the function of the Chief Operating Decision Maker is executed by the members of the Board of Directors. In addition, the Bank's segment reporting follows the standards of the Erste group issued for the purpose to unify presentation, measurement and steering of the group.

### Structural change and major principles

Following a strategic review related to the Group operating segments and method used for the capital allocation to segments, since 1 January 2016 changes have been introduced in the segment reporting of the Bank to be aligned with the Group governance.

The segment report represents the single source of truth for reporting of financial performance of the Bank's segments and serves as the basis for business steering of all individual segments, as well as consolidated result of the Bank. All the areas of the Bank, directly or indirectly involved in business steering and / or reporting of business performance, e.g. Financial Controlling, Business Accounting, Reporting, Management Information Governance, Local Risk Management, ALM, Strategy & Quality management, Retail, Corporates and Markets, Communication, have to assure full alignment of the data used in their reporting in terms of segment structure, segment definitions, key ratios and measures to the current approved segment structure of the Bank. It is the responsibility of the respective area to assure that the alignment is achieved. Segment reporting in the Bank has to be aligned with Erste group segment reporting in terms of segment structure, segment definitions, key ratios and measures, and it has to fulfil local requirements of IFRS 8.

The Bank's segment structure serves as a basis for budgeting, forecasting, strategic discussions, setting and tracking of key performance indicators (KPIs).

### Business segments

The segment reporting was aligned with Erste group segment principles in order to present the Bank's structure in a transparent

way reflecting internal steering and allocations of sources. The Bank is divided into the following business segments:

- Retail,
- Corporates,
- Assets and Liabilities Management (ALM) and Local Corporate Centre (LCC),
- Group Markets (GM).

The Bank applies account manager principle for the definition of segments / business lines. It means that each client has assigned one account manager from a particular segment / business line. Subsequently, profit or loss on business transactions with the client is allocated to that account manager.

**Retail segment** comprises the entire business with private individuals, free professionals and micros, which are in the responsibility of account managers from the retail network. Retail products and services, including current and savings accounts, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance and building society products) are offered via various distribution channels, such as branch network and digital banking. The Retail segment is divided into 8 regions, 42 areas and 271 branches (as at 31 December 2017). In addition the Retail segment also includes the results of Prvá stavebná sporiteľňa, a.s. (building society).

**Corporates segment** comprises services and business done with corporate customers of various turnover size including public sector which is divided into following areas:

- Small and medium-sized enterprises (SME) are small, medium and local companies with an annual turnover from 1 mil. Eur to 75 mil. Eur.
- Local Large Corporates (LLC) are clients with a consolidated annual turnover threshold above 75 mil. Eur which are not defined as Group Large Corporate customers according to the Group Large Corporate client list.
- Group Large Corporates (GLC) are large corporate customers / client groups with substantial operations in core markets / extended core markets of Erste Group with an indicative consolidated annual turnover of at least 500 mil. Eur. GLC clients can be found on the Erste Group-wide GLC client list, which is maintained by the Group GLC. Group Large Corporates business covers the following customer types in principle: customers across the region with an annual turnover above 500 mil. Eur, selected customers with an annual turnover below 500 mil. Eur in case of multinational setup or strong capital markets service needs.
- Public sector consists of the following three sets of customers: public sector, public corporations and non-profit sector. Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipalities excluding stock exchange listed companies. Non-profit sector comprises the following private non-profit companies: central authorities of churches, country-wide labor unions, political parties and nationally significant foundations, private schools and humanitarian organizations.
- Commercial Real Estate (CRE) business covers investors in

real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale, asset management services and own development for business purpose.

**Asset Liability Management (ALM) and Local Corporate Center (LCC) segment** comprises on the one side the management of Bank's assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions. On the other side it also includes the local corporate center which comprises all non-core banking business activities such as non-profit servicing participations, intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets) which cannot be allocated to other business segments. Apart from that the Local Corporate Center includes received dividends and reconciliations to the accounting result. The segment comprises also free capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to all operating segments.

**Group Markets (GM) segment** comprises trading and markets services, as well as business with financial institutions.

- Trading and Market services comprises all activities related to active risk taking and managing in regulatory trading books of the Bank, additional to that the execution of trades against the market using the trading books of the Bank group for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.
- Financial institutions (FI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

## Measurement and reporting

The segment reporting of the Bank, as well as internal management reporting is prepared in accordance with IFRS. It means, that accounting policies and measurement methods used in the segment reporting are the same as those applied in the separate financial statement.

The profit and loss statement presented in the segment report is based on the measures reported to the Board of Directors for the purpose of resource allocation and segments' performance assessment.

In line with the regular internal reporting prepared for the Board

of Directors, total assets, total liabilities, as well as risk weighted assets and allocated equity are disclosed per segment.

The capital consumption per segment is regularly reviewed by the management to assess the performance of the segments. The average allocated equity is determined by credit risk, market risk and operational risk.

For measuring and assessing the profitability of segments, the Bank also uses the rate of return on allocated equity, which is defined as the net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition the cost / income ratio is calculated for each segment, which is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading result, result from financial instruments designated at fair value through profit or loss, net result from equity method investments, rental income from investment properties & other operating lease).

| EUR ths.                                                                                                | Retail         |                | Corporates    |               |
|---------------------------------------------------------------------------------------------------------|----------------|----------------|---------------|---------------|
|                                                                                                         | 2016           | 2017           | 2016          | 2017          |
| Net interest income                                                                                     | 389 538        | 380 516        | 59 025        | 61 697        |
| Net fee and commission income                                                                           | 99 562         | 91 167         | 15 115        | 13 138        |
| Dividend income                                                                                         | -              | -              | -             | 25            |
| Net trading result                                                                                      | 3 155          | 3 646          | 4 681         | 3 523         |
| Result from financial instruments designated at fair value through profit or loss                       | -              | -              | -             | -             |
| Rental income from investment properties & other operating lease                                        | -              | -              | -             | -             |
| General administrative expenses                                                                         | (208 409)      | (243 918)      | (27 883)      | (34 641)      |
| thereof depreciation and amortization                                                                   | (29 499)       | (34 199)       | (4 448)       | (5 592)       |
| Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net | -              | -              | -             | -             |
| Net impairment loss on financial assets not measured at fair value through profit or loss               | (43 968)       | (40 215)       | (4 894)       | 9 815         |
| Other operating result                                                                                  | (19 023)       | (20 904)       | 1 245         | (6 149)       |
| Thereof Levies on banking activities                                                                    | (18 442)       | (20 083)       | (3 838)       | (3 370)       |
| <b>Pre-tax profit from continuing operations</b>                                                        | <b>220 855</b> | <b>170 292</b> | <b>47 288</b> | <b>47 409</b> |
| Taxes on income                                                                                         | (48 995)       | (36 207)       | (10 403)      | (9 956)       |
| Net result for the period                                                                               | 171 860        | 134 085        | 36 885        | 37 453        |
| <b>Net result attributable to owners of the parent</b>                                                  | <b>171 860</b> | <b>134 085</b> | <b>36 885</b> | <b>37 453</b> |
| Operating income                                                                                        | 492 255        | 475 329        | 78 821        | 78 384        |
| Operating expenses                                                                                      | (208 409)      | (243 918)      | (27 883)      | (34 641)      |
| <b>Operating result</b>                                                                                 | <b>283 847</b> | <b>231 411</b> | <b>50 938</b> | <b>43 743</b> |
| Risk-weighted assets (credit risk, eop) *                                                               | 2 282 896      | 2 606 851      | 1 872 894     | 2 419 866     |
| Average allocated capital **                                                                            | 294 932        | 309 891        | 143 006       | 171 155       |
| Cost/income ratio                                                                                       | 42%            | 51%            | 35%           | 44%           |
| Return on allocated capital                                                                             | 58%            | 43%            | 26%           | 22%           |
| -                                                                                                       | -              | -              | -             | -             |
| Total assets (eop)                                                                                      | 7 978 059      | 9 032 269      | 2 467 913     | 2 865 121     |
| Total liabilities excluding equity (eop)                                                                | 9 671 795      | 10 306 680     | 1 277 327     | 1 299 051     |
| <b>Impairments and risk provisions</b>                                                                  |                |                |               |               |
| Net impairment loss on loans and receivables from credit institutions and customers                     | (43 968)       | (40 215)       | (4 894)       | 9 853         |
| Net impairment loss on other financial assets not measured at fair value through profit and loss        | -              | -              | -             | (38)          |
| Allocation/release of provisions for contingent credit risk liabilities                                 | (581)          | (821)          | 5 083         | (2 779)       |
| Net impairment loss on other non financial assets                                                       | -              | -              | -             | -             |

\* Credit RWA (eop) after inter company transactions according to Pillar 1, calculated by Erste group for the purpose of segment report and management purposes (without subsidiaries Credit RWA)

\*\* Average allocated capital is calculated based on Erste group controlling methodology.

| Group Markets |              | ALM/LCC         |                 | Total          |                |
|---------------|--------------|-----------------|-----------------|----------------|----------------|
| 2016          | 2017         | 2016            | 2017            | 2016           | 2017           |
|               |              |                 |                 |                |                |
| 4 646         | 4 012        | 8 780           | (6 615)         | 461 988        | 439 610        |
| 4 986         | 6 330        | 2 056           | 2 075           | 121 719        | 112 710        |
| -             | -            | 3 592           | 3 124           | 3 592          | 3 149          |
| 4 483         | 3 607        | 1 170           | 2 997           | 13 489         | 13 773         |
| -             | -            | (916)           | (514)           | (916)          | (514)          |
| -             | -            | 367             | 325             | 367            | 324            |
| (3 870)       | (5 230)      | (39 042)        | (1 373)         | (279 204)      | (285 162)      |
| (173)         | (136)        | (7 251)         | (1 036)         | (41 371)       | (40 963)       |
| -             | -            | 27 044          | 300             | 27 044         | 300            |
| (8)           | 43           | 636             | 283             | (48 235)       | (30 073)       |
| (1 681)       | (1 275)      | 2 452           | (11 624)        | (17 007)       | (39 952)       |
| (1 594)       | (1 336)      | (5 231)         | (5 339)         | (29 106)       | (30 128)       |
| <b>8 556</b>  | <b>7 487</b> | <b>6 138</b>    | <b>(11 023)</b> | <b>282 837</b> | <b>214 165</b> |
| (1 882)       | (1 572)      | (9 335)         | (4 374)         | (70 616)       | (52 109)       |
| 6 674         | 5 915        | (3 197)         | (15 397)        | 212 221        | 162 056        |
| <b>6 674</b>  | <b>5 915</b> | <b>(3 197)</b>  | <b>(15 397)</b> | <b>212 221</b> | <b>162 056</b> |
|               |              |                 |                 |                |                |
| 14 115        | 13 949       | 15 049          | 1 391           | 600 240        | 569 053        |
| (3 870)       | (5 230)      | (39 042)        | (1 373)         | (279 204)      | (285 162)      |
| <b>10 245</b> | <b>8 718</b> | <b>(23 993)</b> | <b>18</b>       | <b>321 036</b> | <b>283 890</b> |
|               |              |                 |                 |                |                |
| 17 085        | 25 707       | 526 927         | 361 481         | 4 699 803      | 5 413 905      |
| 7 579         | 6 538        | 188 279         | 181 824         | 633 797        | 669 409        |
|               |              |                 |                 |                |                |
| 27%           | 37%          | 259%            | 99%             | 47%            | 50%            |
| 88%           | 90%          | -2%             | -8%             | 33%            | 24%            |
| -             | -            | -               | -               | -              | -              |
| 100 657       | 246 089      | 4 254 346       | 4 171 263       | 14 800 975     | 16 314 743     |
| 475 300       | 598 756      | 1 843 172       | 2 605 710       | 13 267 594     | 14 810 197     |
|               |              |                 |                 |                |                |
|               |              |                 |                 |                |                |
| (8)           | 43           | 673             | 295             | (48 197)       | (30 024)       |
| -             | -            | (37)            | (12)            | (37)           | (50)           |
| (87)          | 61           | 1               | (13)            | 4 416          | (3 552)        |
| -             | -            | (681)           | (1 088)         | (681)          | (1 088)        |

## 35 Risk management

### Risk strategy and policy

The Bank takes a prudent and responsible approach to risk and risk-adjusted approach to revenues. Risk appetite of the Bank (the maximum level of risk that the Bank is willing to undertake) is clearly defined, measurable and widely understood. The Bank offsets its risk appetite with sufficient amount of internal capital to cover unexpected losses.

The Bank prefers sustainability to short-term high-risk returns. The risk / return profile and the balance of risks follow this principle in order to generate sustainable and adequate return on capital.

Risk functions are independent from the commercial business lines. Risk management is centralized and the Bank strives for an integrated risk management framework where all relevant risks are managed comprehensively and where dependencies between different risk types are accounted for.

The Bank shall make sure that risk management is properly supported in terms of human, IT and other resources needed for comprehensive coverage of all major drivers of risk.

The primary risk management objective of the Bank is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively. These policies must be periodically reviewed in order to ensure their appropriateness in terms of their performance and in terms of changing circumstances of the Bank's operating environment.

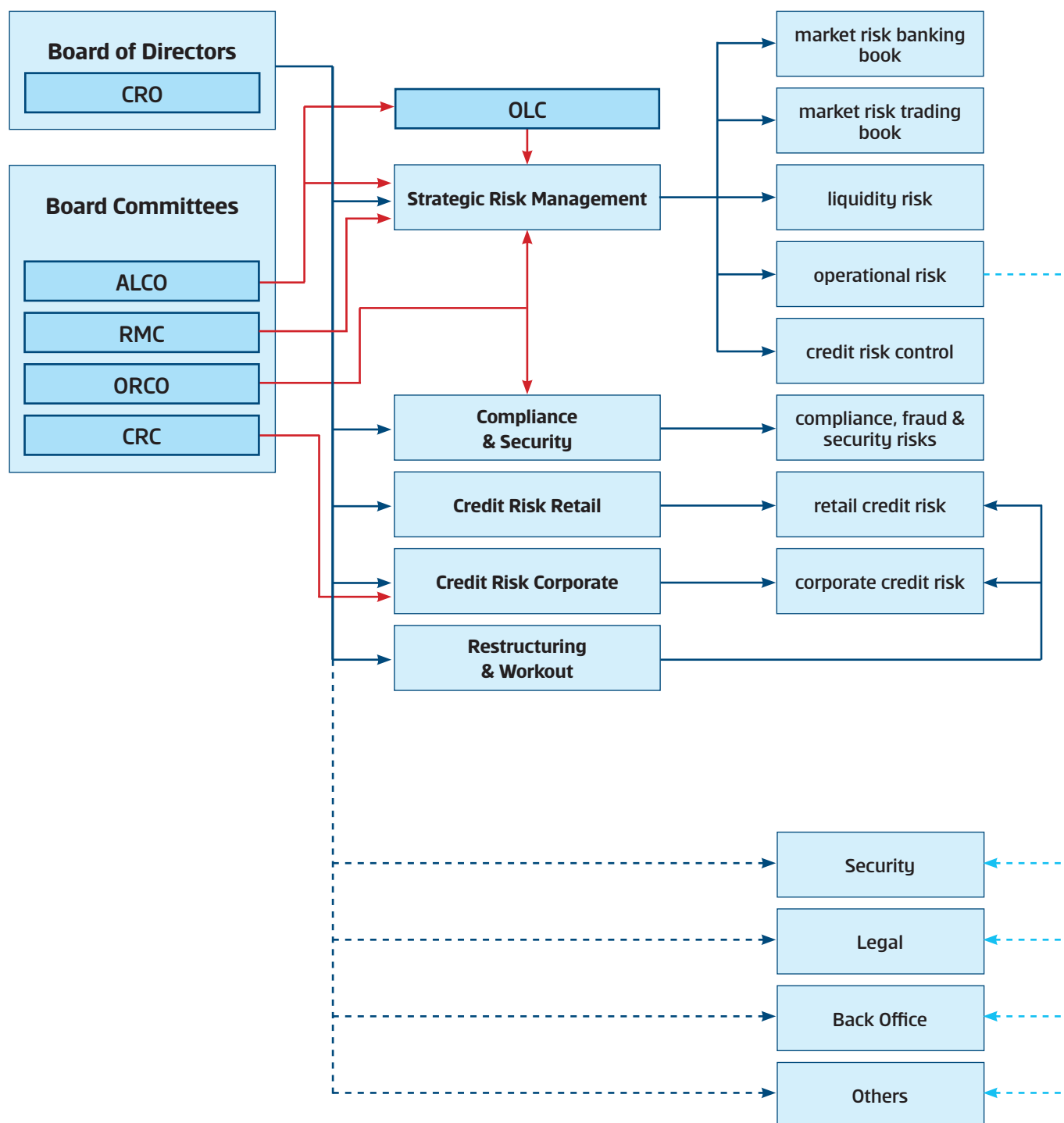
Risk taking is an inseparable part of the Bank's operations and Bank business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

Ultimately, risks should be quantified to the greatest possible extent (considering reasonable effort) and performance measurement of the Bank should be risk weighted. Therefore, the model for calculation and allocation of economic capital is continuously being improved and the Bank has established an internal capital management process (ICAAP).

The Bank is also committed to follow the risk management provisions defined by both local, as well as international laws and regulators.

## Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the organizational structure of risk in the Bank:





## Risk management structure

The ultimate risk management body is the Board of Directors. However, it may delegate some of its authority for particular risk management areas to the respective committees. The Board of Directors also designates one of its members to serve as the Chief Risk Officer ('CRO').

Asset & Liability Committee ('ALCO') has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

Credit Risk Committee ('CRC') is the ultimate decision making body for corporate credit risk.

Operational Risk and Compliance Committee ('ORCO') is the authorized body to make decisions on operational risk strategies and procedures, risk appetite and tolerance levels, also decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, CRC and ORCO are composed of the members of the Board of Directors and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee ('OLC') governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the Bank on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, BSM and Strategic Risk Management.

Risk Management Committee ('RMC') is a committee consisting of selected members of the Board of Directors and senior managers. It is responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, as well as for comprehensive stress testing.

The bottom (executive) level of the risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division carries out all activities concerning operative credit risk of corporate clients.
- Retail Credit Risk Management Division is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, early collection process, collateral management and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models.
- Compliance & Security is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue / dashed lines in the chart).
- Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. It is also responsible for monitoring, restructuring of receivables

over-due, specific provisions and collateral management.

In the chart above, black lines show the assignment of different risk types to the respective units. Solid black lines show the areas directly subordinated to the Chief Risk Officer. Strategic Risk Management and Corporate Credit Risk Management may also report directly to their respective committees as shown by red / dotted lines.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in the Bank's risk management strategy.

## Comprehensive risk and capital management

Internal Capital Adequacy Assessment Process ('ICAAP') is a process in which all significant risks that the Bank faces must be covered by internal capital (i.e. coverage potential). This means that all material risks are determined, quantified, aggregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Bank consists of the following steps:

- Risk materiality assessment
  - identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation
- Risk-bearing capacity calculation
  - calculation of the risk exposure for each particular material
  - aggregation of the individual risks into a single economic capital figure
  - calculation of internal capital (coverage potential))
  - relating economic to internal capital
- Stress testing
  - verification of economic capital figures via severe, yet plausible stress scenarios
- Capital management
  - management of consistency between economic and internal capital including forecasting

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the Bank's management in pursuing its strategy.

### Risk materiality assessment

The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both, quantitative and qualitative factors, which is conducted for each identified risk type the Bank faces.

The output of the risk materiality assessment is the set of material

risks, which have to be quantified and covered by capital. It also includes other risk management practices to control and mitigate the identified risks (material or non-material).

### **Risk-bearing capacity calculation**

The risk-bearing capacity calculation ('RCC') is ultimately the tool to define capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are aggregated into a capital requirement and compared to the coverage potential and the Bank's own funds. The integral forecast, risk appetite limit, as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of risk limits' utilization and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks) and in the context of Pillar 2, interest rate risks in the banking book, business and strategic risk, liquidity risk, residual credit risk and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.9 % confidence level. During the year 2017 the utilization of the economic capital was below 50 %.

Other risks, namely credit concentration risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and / or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined with profit of the current year, considering subordinated liabilities and regulatory deductibles, as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the Bank's operations.

### **Stress testing**

Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99.9 % confidence on one year horizon means an extreme loss that occurs once in thousand years. At this levels the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the Bank's positions, thus providing further assurance of

internal capital adequacy. Should stress testing results show potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

### **Capital management**

Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so, and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the Bank's business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure day-to-day adherence to the approved risk profile and capital levels.

### **Risk planning and forecasting**

The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both, forward- and backward-looking component, focusing on portfolio and economic environment changes.

### **Capital allocation**

An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Strategic Risk Management and Accounting and Controlling.

### **Credit risk**

Credit risk, in broad terms, is the risk that a loss will be incurred if the Bank's counterparty to a transaction does not fulfill its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the Bank. It results from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk includes also sovereign, country, concentration, settlement, counterparty and dilution risks.

The Bank shall follow the policy of long-term risk-adjusted profitability and the principle of adequate pricing (higher credit risk leads to higher risk premium).

The Bank shall annually review its credit risk tolerance, and shall set priorities, i.e. quantitative and qualitative measures, for the next term with respect to the credit risk point of view.

Three fundamental layers of documents regulate the credit activity

of the Bank. The credit strategy, defined by the top management, introduces the overall orientation, areas of activity and strategic objectives of the Bank. The credit policy sets out the principles, identifies operating procedures and specifies framework responsibilities related to credit activities. Subordinated internal provisions take the form of detailed manuals or department-specific instructions or guidelines, describing precisely responsibilities to the lowest levels, any applicable deadlines, reports and other relevant contingencies of credit process and credit risk management.

The organization of the Bank's credit activity is governed by the following principles:

- clear segregation of credit risk management function from business activities or delegation of these activities to business function with clearly defined split of responsibilities
- centralization of operative credit risk management – independent credit risk management divisions for both, corporate and retail segments
- flexibility and accuracy of credit process and quality of credit decisions
- personally assigned and clearly specified competences
- general application of four-eye principle in all critical lending processes (with justified exceptions)
- diversification of credit portfolio in order to keep the exposures within defined limits
- independent credit risk control function – Strategic Risk Management

### Strategic risk management

Strategic Risk Management, more specifically its Credit Risk Control department, is the independent risk control unit in line with capital requirements regulation and directive. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the Bank's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to capital requirements regulation and directive and model for economic capital. In addition to this, SRM has two other specific roles:

- credit exposures to banks, sovereigns and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally approved and monitored by SRM;
- credit lines of Treasury clients (approved by Credit Risk Corporate or Credit Committee) are determined and monitored by SRM.

### Retail credit risk management division

Retail Credit Risk Management Division formulates the credit policy and internal actions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). Furthermore, it monitors the development of credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limits documentation, as well as performs early and late collection and retail collateral management.

### Corporate credit risk management division

Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). Furthermore, it monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits, maintains deal and limits documentation for corporate clients.

### Restructuring & Workout

Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring, restructuring of receivables overdue, specific provisions and collateral management for corporate clients.

### Internal rating system

Since July 2008 the Bank reports capital adequacy using the "internal-ratings based" (IRB) approach to credit risk. The approval by the Financial Market Authority of Austria and the National Bank of Slovakia indicated that the Bank's credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation, as well as into internal controls and reporting and that they play the essential role.

All material aspects of the rating and estimation processes shall be approved by the Board of Directors. Together with senior management, they shall possess a general understanding of the internal rating system and detailed comprehension of associated management reports.

Senior management, with main responsibility on the head of Strategic Risk Management, shall ensure on an ongoing basis that the rating systems are operating properly. Senior management shall be regularly informed by the credit risk control unit about the performance of the rating process, areas needing improvement and the status of efforts to improve previously identified deficiencies.

The rating system of the Bank comprises all methods, processes, control mechanisms, data collection and IT systems supporting credit risk measurement, assigning exposures to risk grades and risk pools and quantification of risk parameters. The rating system consists of several rating methods and rating tools depending on obligor asset class and other obligor characteristics.

Internal rating is a cornerstone of a complex credit risk management system of the Bank. It is a fundamental indicator of the probability of default of a client. The result of a rating assessment is the allocation of an obligor into a particular rating grade.

The internal rating is composed of hard and soft facts about the client and possibly also includes transformed selected external investment rating(s). The Bank shall use comprehensive rating systems for evaluation of both retail and corporate clients. Obligors in a given asset class and rating method, which have similar

probability of default should have the same rating grade. Rating scale should have sufficient discriminatory power to properly distinguish between various levels of credit risk. Distribution of obligors in a given rating grade should be such that the risk parameters quantification for that grade is sufficiently accurate.

Credit Risk Models department is responsible for development of scoring and rating models. Performance of the models, i.e. accuracy and selectivity of internal rating grades, is regularly monitored and reported. Full scope validation of the models is performed on an annual basis.

Assigned ratings shall be reviewed at least annually. Behavioural (batch) rating shall be used for retail exposures, other exposure classes shall be reviewed by Corporate Credit Risk Management Division. If new and important information about the obligor or exposure is available, the rating shall be updated too. It is possible to override a rating only based on information, which is not used by the rating tool, or was not considered during rating approval. All rating overrides shall be recorded and analysed.

The internal rating system shall be properly documented. Detailed principles and processes of the internal rating system shall be specified within internal guidelines.

### **Risk grades**

The classification of credit assets into risk grades is based on the Bank's internal ratings. The Bank uses two internal risk scales for risk classification for customers that have not defaulted: risk scale of 8 risk grades (for retail) and 13 risk grades (for all other segments). Defaulted customers are classified into a separate risk grade.

### **Default definition**

A default is deemed to have occurred with a client when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the Bank without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Bank;
- whatever condition or obligation under contract has been breached by client, on the basis of which the Bank is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

The Bank defines five default events:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 – defaulted forbearance
- E4 – exposure write-off
- E5 – bankruptcy

Credit Risk Control department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils EBA criteria and influences estimation of LLP, SRC, etc.

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - other demand deposits,
- financial assets - held for trading (without equity instruments),
- financial assets – designated at fair value through profit or loss (without equity instruments),
- financial assets - available for sale (without equity instruments),
- financial assets - held to maturity,
- loans and receivables to credit institutions,
- loans and receivables to customers,
- positive fair value of derivatives,
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The following table presents the reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure:

| <b>2017</b><br><b>EUR ths.</b>                          | <b>Gross carrying amount</b> | <b>Specific allowances for individually assessed financial assets</b> | <b>Specific allowances for collectively assessed financial assets</b> | <b>Collective allowances for incurred but not reported losses</b> | <b>Net carrying amount</b> |
|---------------------------------------------------------|------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------|
| Cash and cash balances                                  | 53 802                       | -                                                                     | -                                                                     | -                                                                 | 53 802                     |
| Loans and receivables to credit institutions            | 177 616                      | -                                                                     | -                                                                     | -                                                                 | 177 616                    |
| Loans and receivables to customers                      | 12 123 740                   | 82 730                                                                | 207 065                                                               | 74 995                                                            | 11 758 950                 |
| thereof: lending for house purchase                     | 6 950 023                    | 3 805                                                                 | 80 339                                                                | 24 875                                                            | 6 841 004                  |
| thereof: credit for consumption                         | 1 715 672                    | 3                                                                     | 105 156                                                               | 30 138                                                            | 1 580 374                  |
| thereof: corporate loans and others                     | 3 458 046                    | 78 922                                                                | 21 570                                                                | 19 982                                                            | 3 337 572                  |
| Financial assets - held to maturity                     | 2 644 730                    | -                                                                     | -                                                                     | 328                                                               | 2 644 402                  |
| Financial assets - held for trading                     | -                            | -                                                                     | -                                                                     | -                                                                 | -                          |
| Financial assets - at fair value through profit or loss | -                            | -                                                                     | -                                                                     | -                                                                 | -                          |
| Financial assets - available for sale                   | 972 734                      | -                                                                     | -                                                                     | -                                                                 | 972 734                    |
| Positive fair value of derivatives                      | 43 244                       | -                                                                     | -                                                                     | -                                                                 | 43 244                     |
| <b>Total credit risk exposure on-balance</b>            | <b>16 015 867</b>            | <b>82 730</b>                                                         | <b>207 065</b>                                                        | <b>75 323</b>                                                     | <b>15 650 748</b>          |
| Off-balance sheet items                                 | 1 619 165                    | 8 117                                                                 | 461                                                                   | 6 513                                                             | 1 604 074                  |
| <b>Total</b>                                            | <b>17 635 032</b>            | <b>90 847</b>                                                         | <b>207 526</b>                                                        | <b>81 836</b>                                                     | <b>17 254 822</b>          |

| <b>2016</b><br><b>EUR ths.</b>                          | <b>Gross carrying amount</b> | <b>Specific allowances for individually assessed financial assets</b> | <b>Specific allowances for collectively assessed financial assets</b> | <b>Collective allowances for incurred but not reported losses</b> | <b>Net carrying amount</b> |
|---------------------------------------------------------|------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------|
| Cash and cash balances                                  | -                            | -                                                                     | -                                                                     | -                                                                 | -                          |
| Loans and receivables to credit institutions            | 89 942                       | -                                                                     | -                                                                     | 36                                                                | 89 906                     |
| Loans and receivables to customers                      | 10 639 027                   | 90 672                                                                | 163 025                                                               | 88 967                                                            | 10 296 363                 |
| thereof: lending for house purchase                     | 6 100 019                    | 3 895                                                                 | 65 531                                                                | 29 957                                                            | 6 000 637                  |
| thereof: credit for consumption                         | 1 551 981                    | 12                                                                    | 78 246                                                                | 32 231                                                            | 1 441 492                  |
| thereof: corporate loans and others                     | 2 987 026                    | 86 765                                                                | 19 248                                                                | 26 779                                                            | 2 854 234                  |
| Financial assets - held to maturity                     | 2 640 941                    | -                                                                     | -                                                                     | 280                                                               | 2 640 662                  |
| Financial assets - held for trading                     | -                            | -                                                                     | -                                                                     | -                                                                 | -                          |
| Financial assets - at fair value through profit or loss | -                            | -                                                                     | -                                                                     | -                                                                 | -                          |
| Financial assets - available for sale                   | 1 027 934                    | -                                                                     | -                                                                     | -                                                                 | 1 027 934                  |
| Positive fair value of derivatives                      | 52 519                       | -                                                                     | -                                                                     | -                                                                 | 52 519                     |
| <b>Total credit risk exposure on-balance</b>            | <b>14 450 363</b>            | <b>90 672</b>                                                         | <b>163 025</b>                                                        | <b>89 282</b>                                                     | <b>14 107 383</b>          |
| Off-balance sheet items                                 | 1 403 458                    | 935                                                                   | 141                                                                   | 10 419                                                            | 1 391 964                  |
| <b>Total</b>                                            | <b>15 853 820</b>            | <b>91 607</b>                                                         | <b>163 165</b>                                                        | <b>99 701</b>                                                     | <b>15 499 347</b>          |

The credit risk exposure does not cover other assets as their amount is not material and therefore the Bank does not collect risk profile parameters for such deals.

The following table presents credit risk exposure by industry and risk category:

| 2017<br>EUR ths.                 | Investment grade  | Subinvestment grade | Non-performing loans | Total credit risk exposure |
|----------------------------------|-------------------|---------------------|----------------------|----------------------------|
| Agriculture and forestry         | 80 066            | 33 949              | 1 931                | 115 947                    |
| Mining                           | 42 873            | 4 506               | -                    | 47 378                     |
| Manufacturing                    | 812 974           | 80 143              | 21 081               | 914 198                    |
| Energy and water supply          | 413 267           | 5 866               | 77                   | 419 210                    |
| Construction                     | 222 653           | 10 932              | 13 451               | 247 036                    |
| Development of building projects | 32 651            | -                   | 1 849                | 34 500                     |
| Trade                            | 514 718           | 66 121              | 20 007               | 600 846                    |
| Transport and communication      | 584 608           | 11 754              | 5 320                | 601 681                    |
| Hotels and restaurants           | 70 445            | 4 551               | 4 904                | 79 901                     |
| Financial and insurance services | 571 798           | 515                 | 305                  | 572 618                    |
| Holding companies                | 24 614            | -                   | 280                  | 24 894                     |
| Real estate and housing          | 1 040 774         | 16 517              | 114 792              | 1 172 083                  |
| Services                         | 111 830           | 17 859              | 6 432                | 136 121                    |
| Public administration            | 3 558 327         | 2 114               | -                    | 3 560 440                  |
| Education, health and art        | 50 164            | 2 575               | 282                  | 53 022                     |
| Private households               | 8 249 763         | 546 425             | 318 003              | 9 114 192                  |
| Other                            | 25                | 333                 | 1                    | 359                        |
| <b>Total</b>                     | <b>16 324 286</b> | <b>804 159</b>      | <b>506 587</b>       | <b>17 635 032</b>          |

| 2016<br>EUR ths.                 | Investment grade  | Subinvestment grade | Non-performing loans | Total credit risk exposure |
|----------------------------------|-------------------|---------------------|----------------------|----------------------------|
| Agriculture and forestry         | 71 498            | 31 987              | 1 358                | 104 843                    |
| Mining                           | 19 968            | 11                  | 1                    | 19 980                     |
| Manufacturing                    | 716 635           | 100 964             | 22 377               | 839 975                    |
| Energy and water supply          | 375 126           | 1 566               | 117                  | 376 810                    |
| Construction                     | 220 047           | 33 832              | 19 286               | 273 164                    |
| Development of building projects | 54 051            | 156                 | 2 632                | 56 839                     |
| Trade                            | 473 270           | 56 743              | 22 000               | 552 013                    |
| Transport and communication      | 461 434           | 7 903               | 5 515                | 474 851                    |
| Hotels and restaurants           | 45 573            | 22 466              | 5 808                | 73 847                     |
| Financial and insurance services | 404 241           | 1 283               | 8                    | 405 531                    |
| Holding companies                | 36 747            | -                   | -                    | 36 747                     |
| Real estate and housing          | 772 504           | 21 838              | 129 600              | 923 942                    |
| Services                         | 81 321            | 8 084               | 4 786                | 94 192                     |
| Public administration            | 3 604 712         | 1 901               | -                    | 3 606 613                  |
| Education, health and art        | 41 346            | 2 875               | 1 013                | 45 234                     |
| Private households               | 7 226 527         | 523 134             | 312 738              | 8 062 400                  |
| Other                            | 6                 | 419                 | 1                    | 425                        |
| <b>Total</b>                     | <b>14 514 208</b> | <b>815 007</b>      | <b>524 606</b>       | <b>15 853 820</b>          |

Clients are classified into respective risk categories based on rating grade by following way:

- investment grade – rating grade from 1 to 5c / 1 to 5
- subinvestment grade – rating grade 6a – 8 / 6 – 8, N
- non-performing loans – rating grade R (default) or clients with status NP FB (non-performing forbearance)

The increasing internal rating of clients corresponds with their increasing credit risk. When assigning the rating the Bank considers financial position and performance of counterparty, qualitative factors, as well as general economic trends in particular industry and country.

The following table presents credit risk exposure by region and financial instrument:

| 2017<br>EUR ths.                            | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial<br>assets - held to<br>maturity |
|---------------------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|-------------------------------------------|
|                                             |                           |                                                      | thereof: lending<br>for house pur-<br>chase | thereof: credit for<br>consumption | thereof: corporate<br>loans and others |                                           |
| <b>Slovakia</b>                             | -                         | <b>79</b>                                            | <b>6 944 768</b>                            | <b>1 714 487</b>                   | <b>3 389 479</b>                       | <b>2 398 418</b>                          |
| <b>Central and Eastern Europe</b>           | <b>53 302</b>             | <b>177 532</b>                                       | <b>1 840</b>                                | <b>479</b>                         | <b>33 429</b>                          | -                                         |
| Austria                                     | 3 467                     | 135 718                                              | 186                                         | 18                                 | 493                                    | -                                         |
| Czech Republic                              | 49 764                    | 39 139                                               | 1 152                                       | 316                                | 30 679                                 | -                                         |
| Hungary                                     | 57                        | 2 675                                                | 66                                          | -                                  | 1 583                                  | -                                         |
| Croatia                                     | 11                        | -                                                    | -                                           | 46                                 | 253                                    | -                                         |
| Romania                                     | 3                         | -                                                    | 344                                         | 51                                 | 420                                    | -                                         |
| Serbia                                      | -                         | -                                                    | 93                                          | 47                                 | 1                                      | -                                         |
| <b>Other EU</b>                             | <b>341</b>                | <b>4</b>                                             | <b>1 500</b>                                | <b>212</b>                         | <b>33 499</b>                          | <b>246 312</b>                            |
| <b>Other industrialised coun-<br/>tries</b> | <b>159</b>                | -                                                    | <b>344</b>                                  | <b>38</b>                          | <b>104</b>                             | -                                         |
| <b>Emerging markets</b>                     | -                         | <b>1</b>                                             | <b>1 570</b>                                | <b>456</b>                         | <b>1 535</b>                           | -                                         |
| <b>Total</b>                                | <b>53 802</b>             | <b>177 616</b>                                       | <b>6 950 023</b>                            | <b>1 715 672</b>                   | <b>3 458 046</b>                       | <b>2 644 730</b>                          |

| 2016<br>EUR ths.                            | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial<br>assets - held to<br>maturity |
|---------------------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|-------------------------------------------|
|                                             |                           |                                                      | thereof: lending<br>for house pur-<br>chase | thereof: credit for<br>consumption | thereof: corporate<br>loans and others |                                           |
| <b>Slovakia</b>                             | -                         | <b>30</b>                                            | <b>6 095 755</b>                            | <b>1 550 961</b>                   | <b>2 930 377</b>                       | <b>2 513 453</b>                          |
| <b>Central and Eastern Europe</b>           | -                         | <b>50 866</b>                                        | <b>1 478</b>                                | <b>377</b>                         | <b>27 727</b>                          | -                                         |
| Austria                                     | -                         | 17 086                                               | 188                                         | 20                                 | 262                                    | -                                         |
| Czech Republic                              | -                         | 31 473                                               | 1 075                                       | 279                                | 25 871                                 | -                                         |
| Hungary                                     | -                         | 2 281                                                | 70                                          | -                                  | 1 027                                  | -                                         |
| Croatia                                     | -                         | 25                                                   | -                                           | 4                                  | 363                                    | -                                         |
| Romania                                     | -                         | -                                                    | 144                                         | 36                                 | 204                                    | -                                         |
| Serbia                                      | -                         | -                                                    | -                                           | 38                                 | 1                                      | -                                         |
| <b>Other EU</b>                             | -                         | <b>38 068</b>                                        | <b>1 127</b>                                | <b>224</b>                         | <b>26 660</b>                          | <b>127 489</b>                            |
| <b>Other industrialised coun-<br/>tries</b> | -                         | <b>255</b>                                           | <b>356</b>                                  | <b>33</b>                          | <b>461</b>                             | -                                         |
| <b>Emerging markets</b>                     | -                         | <b>722</b>                                           | <b>1 304</b>                                | <b>387</b>                         | <b>1 801</b>                           | -                                         |
| <b>Total</b>                                | -                         | <b>89 942</b>                                        | <b>6 100 019</b>                            | <b>1 551 981</b>                   | <b>2 987 026</b>                       | <b>2 640 941</b>                          |



| Financial assets - held for trading | Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |   |         |        |           |            |
|---|---|---------|--------|-----------|------------|
| - | - | 881 217 | 32 893 | 1 577 604 | 16 938 945 |
| - | - | 44 139  | 3 210  | 34 952    | 348 882    |
| - | - | -       | 3 120  | 2 516     | 145 518    |
| - | - | 44 139  | 90     | 32 116    | 197 396    |
| - | - | -       | -      | 273       | 4 654      |
| - | - | -       | -      | 2         | 312        |
| - | - | -       | -      | 42        | 860        |
| - | - | -       | -      | 2         | 142        |
| - | - | 40 634  | 7 141  | 3 670     | 333 313    |
| - | - | 6 744   | -      | 6         | 7 396      |
| - | - | -       | -      | 2 934     | 6 496      |
| - | - | 972 734 | 43 244 | 1 619 165 | 17 635 032 |

| Financial assets - held for trading | Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |   |           |        |           |            |
|---|---|-----------|--------|-----------|------------|
| - | - | 911 927   | 35 369 | 1 366 989 | 15 404 860 |
| - | - | 43 886    | 8 531  | 31 422    | 164 287    |
| - | - | -         | 8 531  | 2 514     | 28 601     |
| - | - | 43 886    | -      | 28 432    | 131 016    |
| - | - | -         | -      | 374       | 3 753      |
| - | - | -         | -      | 1         | 393        |
| - | - | -         | -      | 6         | 389        |
| - | - | -         | -      | 95        | 134        |
| - | - | 65 348    | 8 618  | 4 292     | 271 825    |
| - | - | 6 774     | -      | 5         | 7 884      |
| - | - | -         | -      | 749       | 4 964      |
| - | - | 1 027 934 | 52 519 | 1 403 458 | 15 853 820 |

The following table presents credit risk exposure according to EBA definition:

| 2017                                                    | Non-impaired loans          |                            |                             |
|---------------------------------------------------------|-----------------------------|----------------------------|-----------------------------|
|                                                         | Total past due non impaired | Thereof 1-30 days past due | Thereof 31-60 days past due |
| EUR ths.                                                |                             |                            |                             |
| Cash and cash balances                                  | -                           | -                          | -                           |
| Loans and receivables to credit institutions            | 38                          | 38                         | -                           |
| Loans and receivables to customers                      | 328 650                     | 298 467                    | 19 821                      |
| thereof: lending for house purchase                     | 131 401                     | 116 198                    | 10 482                      |
| thereof: credit for consumption                         | 84 289                      | 72 813                     | 6 615                       |
| thereof: corporate loans and others                     | 112 959                     | 109 457                    | 2 724                       |
| Financial assets - held to maturity                     | -                           | -                          | -                           |
| Financial assets - held for trading                     | -                           | -                          | -                           |
| Financial assets - at fair value through profit or loss | -                           | -                          | -                           |
| Financial assets - available for sale                   | -                           | -                          | -                           |
| Positive fair value of derivatives                      | -                           | -                          | -                           |
| <b>Total credit risk exposure on-balance</b>            | <b>328 688</b>              | <b>298 505</b>             | <b>19 821</b>               |
| Off-balance sheet items                                 | 82 546                      | 82 500                     | 33                          |
| <b>Total</b>                                            | <b>411 234</b>              | <b>381 005</b>             | <b>19 854</b>               |

| 2016                                                    | Non-impaired loans          |                            |                             |
|---------------------------------------------------------|-----------------------------|----------------------------|-----------------------------|
|                                                         | Total past due non impaired | Thereof 1-30 days past due | Thereof 31-60 days past due |
| EUR ths.                                                |                             |                            |                             |
| Cash and cash balances                                  | -                           | -                          | -                           |
| Loans and receivables to credit institutions            | -                           | -                          | -                           |
| Loans and receivables to customers                      | 296 401                     | 240 345                    | 35 968                      |
| thereof: lending for house purchase                     | 129 228                     | 97 717                     | 20 054                      |
| thereof: credit for consumption                         | 85 902                      | 68 501                     | 10 198                      |
| thereof: corporate loans and others                     | 81 271                      | 74 127                     | 5 715                       |
| Financial assets - held to maturity                     | -                           | -                          | -                           |
| Financial assets - held for trading                     | -                           | -                          | -                           |
| Financial assets - at fair value through profit or loss | -                           | -                          | -                           |
| Financial assets - available for sale                   | -                           | -                          | -                           |
| Positive fair value of derivatives                      | -                           | -                          | -                           |
| <b>Total credit risk exposure on-balance</b>            | <b>296 401</b>              | <b>240 345</b>             | <b>35 968</b>               |
| Off-balance sheet items                                 | 33 012                      | 32 590                     | 313                         |
| <b>Total</b>                                            | <b>329 413</b>              | <b>272 935</b>             | <b>36 280</b>               |

\* Overdue amount is non material, when it is less than 50 Eur per client in case of Retail and less than 250 Eur in case of Corporate (materiality limit introduced in the year 2009).

| Non-impaired loans          |                               |                                      |                               | Impaired loans | Total credit risk exposure |
|-----------------------------|-------------------------------|--------------------------------------|-------------------------------|----------------|----------------------------|
| Thereof 61-90 days past due | Thereof 91-180 days past due* | Thereof more than 180 days past due* | Neither past due non impaired |                |                            |
| -                           | -                             | -                                    | 53 802                        | -              | 53 802                     |
| -                           | -                             | -                                    | 177 578                       | -              | 177 616                    |
| 9 645                       | 490                           | 227                                  | 11 346 275                    | 448 815        | 12 123 740                 |
| 4 529                       | 125                           | 67                                   | 6 646 392                     | 172 229        | 6 950 023                  |
| 4 534                       | 253                           | 75                                   | 1 503 652                     | 127 730        | 1 715 672                  |
| 582                         | 112                           | 85                                   | 3 196 230                     | 148 856        | 3 458 046                  |
| -                           | -                             | -                                    | 2 644 730                     | -              | 2 644 730                  |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | 972 734                       | -              | 972 734                    |
| -                           | -                             | -                                    | 43 244                        | -              | 43 244                     |
| <b>9 645</b>                | <b>490</b>                    | <b>227</b>                           | <b>15 238 363</b>             | <b>448 815</b> | <b>16 015 867</b>          |
| 11                          | 2                             | -                                    | 1 487 928                     | 48 691         | 1 619 165                  |
| <b>9 656</b>                | <b>492</b>                    | <b>227</b>                           | <b>16 726 292</b>             | <b>497 506</b> | <b>17 635 032</b>          |

| Non-impaired loans          |                               |                                      |                               | Impaired loans | Total credit risk exposure |
|-----------------------------|-------------------------------|--------------------------------------|-------------------------------|----------------|----------------------------|
| Thereof 61-90 days past due | Thereof 91-180 days past due* | Thereof more than 180 days past due* | Neither past due non impaired |                |                            |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | 89 942                        | -              | 89 942                     |
| 19 647                      | 200                           | 241                                  | 9 935 318                     | 407 308        | 10 639 027                 |
| 11 252                      | -                             | 205                                  | 5 828 600                     | 142 191        | 6 100 019                  |
| 7 199                       | 3                             | -                                    | 1 368 765                     | 97 314         | 1 551 981                  |
| 1 196                       | 197                           | 36                                   | 2 737 953                     | 167 803        | 2 987 026                  |
| -                           | -                             | -                                    | 2 640 941                     | -              | 2 640 941                  |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | -                             | -              | -                          |
| -                           | -                             | -                                    | 1 027 934                     | -              | 1 027 934                  |
| -                           | -                             | -                                    | 52 519                        | -              | 52 519                     |
| <b>19 647</b>               | <b>200</b>                    | <b>241</b>                           | <b>13 746 654</b>             | <b>407 308</b> | <b>14 450 363</b>          |
| 52                          | 25                            | 33                                   | 1 367 446                     | 3 000          | 1 403 458                  |
| <b>19 699</b>               | <b>225</b>                    | <b>274</b>                           | <b>15 114 100</b>             | <b>410 307</b> | <b>15 853 820</b>          |

The following table presents credit quality for exposures, which are neither past due non impaired, by rating grades:

| 2017<br>EUR ths.                | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial<br>assets - held to<br>maturity |
|---------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|-------------------------------------------|
|                                 |                           |                                                      | thereof: lending<br>for house pur-<br>chase | thereof: credit for<br>consumption | thereof: corporate<br>loans and others |                                           |
| Investment grade (1-5)          | 53 802                    | 177 578                                              | 6 406 690                                   | 1 382 367                          | 3 026 762                              | 2 644 730                                 |
| Subinvestment grade (6)         | -                         | -                                                    | 181 300                                     | 85 684                             | 144 719                                | -                                         |
| Subinvestment grade (7)         | -                         | -                                                    | 44 467                                      | 25 149                             | 16 474                                 | -                                         |
| Subinvestment grade (8)         | -                         | -                                                    | 10 509                                      | 9 447                              | 8 232                                  | -                                         |
| Non-performing loans<br>(NPE)** | -                         | -                                                    | 3 425                                       | 1 005                              | 44                                     | -                                         |
| <b>Total</b>                    | <b>53 802</b>             | <b>177 578</b>                                       | <b>6 646 392</b>                            | <b>1 503 652</b>                   | <b>3 196 230</b>                       | <b>2 644 730</b>                          |

| 2016<br>EUR ths.                | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and receivables to customers          |                                    |                                        | Financial<br>assets - held to<br>maturity |
|---------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------------------------|-------------------------------------------|
|                                 |                           |                                                      | thereof: lending<br>for house pur-<br>chase | thereof: credit for<br>consumption | thereof: corporate<br>loans and others |                                           |
| Investment grade (1-5)          | -                         | 89 387                                               | 5 578 892                                   | 1 236 234                          | 2 552 007                              | 2 640 941                                 |
| Subinvestment grade (6)         | -                         | 555                                                  | 173 751                                     | 88 729                             | 115 020                                | -                                         |
| Subinvestment grade (7)         | -                         | -                                                    | 38 515                                      | 26 603                             | 26 133                                 | -                                         |
| Subinvestment grade (8)         | -                         | -                                                    | 10 743                                      | 10 421                             | 43 420                                 | -                                         |
| Non-performing loans<br>(NPE)** | -                         | -                                                    | 26 698                                      | 6 777                              | 1 372                                  | -                                         |
| <b>Total</b>                    | <b>-</b>                  | <b>89 942</b>                                        | <b>5 828 600</b>                            | <b>1 368 765</b>                   | <b>2 737 953</b>                       | <b>2 640 941</b>                          |

\*\* Methodology change in clasification of impaired loans.

In January 2017 the Bank adjusted presentation of impaired loans. As a result, the gross carrying amount of impaired loans and their respective risk allowances increased, both by 45,4 mil. Eur. This presentation adjustment has affected neither the net carrying amount of impaired loans, nor profit of the Bank.

| Financial assets - held for trading | Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total neither past due nor impaired exposure |
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------------------------|
| -                                   | -                                                                  | 972 734                               | 42 549                             | 1 419 989               | 16 127 201                                   |
| -                                   | -                                                                  | -                                     | 677                                | 57 175                  | 469 555                                      |
| -                                   | -                                                                  | -                                     | 10                                 | 9 669                   | 95 770                                       |
| -                                   | -                                                                  | -                                     | -                                  | 1 012                   | 29 200                                       |
| -                                   | -                                                                  | -                                     | 8                                  | 83                      | 4 565                                        |
| -                                   | -                                                                  | <b>972 734</b>                        | <b>43 244</b>                      | <b>1 487 928</b>        | <b>16 726 292</b>                            |

| Financial assets - held for trading | Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total neither past due nor impaired exposure |
|-------------------------------------|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------------------------|
| -                                   | -                                                                  | 1 027 934                             | 51 178                             | 1 224 977               | 14 401 551                                   |
| -                                   | -                                                                  | -                                     | 730                                | 62 689                  | 441 475                                      |
| -                                   | -                                                                  | -                                     | 42                                 | 3 917                   | 95 210                                       |
| -                                   | -                                                                  | -                                     | 560                                | 29 443                  | 94 588                                       |
| -                                   | -                                                                  | -                                     | 9                                  | 46 420                  | 81 277                                       |
| -                                   | -                                                                  | <b>1 027 934</b>                      | <b>52 519</b>                      | <b>1 367 446</b>        | <b>15 114 100</b>                            |

The following table credit risk exposure by industry:

| 2017<br>EUR ths.                 | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and<br>receivables to<br>customers | Financial assets -<br>held to maturity | Financial assets - held<br>for trading |
|----------------------------------|---------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|----------------------------------------|
| Agriculture and forestry         | -                         | -                                                    | 99 112                                   | -                                      | -                                      |
| Mining                           | -                         | -                                                    | 39 180                                   | -                                      | -                                      |
| Manufacturing                    | -                         | -                                                    | 612 990                                  | -                                      | -                                      |
| Energy and water supply          | -                         | -                                                    | 331 939                                  | -                                      | -                                      |
| Construction                     | -                         | -                                                    | 99 240                                   | -                                      | -                                      |
| Development of building projects | -                         | -                                                    | 28 857                                   | -                                      | -                                      |
| Trade                            | -                         | -                                                    | 438 560                                  | -                                      | -                                      |
| Transport and communication      | -                         | -                                                    | 351 018                                  | -                                      | -                                      |
| Hotels and restaurants           | -                         | -                                                    | 72 822                                   | -                                      | -                                      |
| Financial and insurance services | 53 802                    | 177 616                                              | 94 945                                   | 92 205                                 | -                                      |
| Holding companies                | -                         | -                                                    | 3 715                                    | -                                      | -                                      |
| Real estate and housing          | -                         | -                                                    | 906 964                                  | 10 232                                 | -                                      |
| Services                         | -                         | -                                                    | 87 308                                   | -                                      | -                                      |
| Public administration            | -                         | -                                                    | 208 858                                  | 2 542 292                              | -                                      |
| Education, health and art        | -                         | -                                                    | 38 443                                   | -                                      | -                                      |
| Private households               | -                         | -                                                    | 8 742 337                                | -                                      | -                                      |
| Other                            | -                         | -                                                    | 24                                       | -                                      | -                                      |
| <b>Total</b>                     | <b>53 802</b>             | <b>177 616</b>                                       | <b>12 123 740</b>                        | <b>2 644 730</b>                       | <b>-</b>                               |

| 2016<br>EUR ths.                 | Cash and cash<br>balances | Loans and recei-<br>vables to credit<br>institutions | Loans and<br>receivables to<br>customers | Financial assets -<br>held to maturity | Financial assets - held<br>for trading |
|----------------------------------|---------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|----------------------------------------|
| Agriculture and forestry         | -                         | -                                                    | 86 209                                   | -                                      | -                                      |
| Mining                           | -                         | -                                                    | 14 641                                   | -                                      | -                                      |
| Manufacturing                    | -                         | -                                                    | 527 161                                  | -                                      | -                                      |
| Energy and water supply          | -                         | -                                                    | 280 210                                  | -                                      | -                                      |
| Construction                     | -                         | -                                                    | 88 954                                   | -                                      | -                                      |
| Development of building projects | -                         | -                                                    | 38 225                                   | -                                      | -                                      |
| Trade                            | -                         | -                                                    | 387 687                                  | -                                      | -                                      |
| Transport and communication      | -                         | -                                                    | 272 918                                  | -                                      | -                                      |
| Hotels and restaurants           | -                         | -                                                    | 70 135                                   | -                                      | -                                      |
| Financial and insurance services | -                         | 89 941                                               | 83 538                                   | 63 468                                 | -                                      |
| Holding companies                | -                         | -                                                    | 15 017                                   | -                                      | -                                      |
| Real estate and housing          | -                         | -                                                    | 797 962                                  | 101                                    | -                                      |
| Services                         | -                         | -                                                    | 67 454                                   | -                                      | -                                      |
| Public administration            | -                         | -                                                    | 196 301                                  | 2 577 372                              | -                                      |
| Education, health and art        | -                         | -                                                    | 34 682                                   | -                                      | -                                      |
| Private households               | -                         | -                                                    | 7 731 169                                | -                                      | -                                      |
| Other                            | -                         | 1                                                    | 5                                        | -                                      | -                                      |
| <b>Total</b>                     | <b>-</b>                  | <b>89 942</b>                                        | <b>10 639 027</b>                        | <b>2 640 941</b>                       | <b>-</b>                               |

| Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
| -                                                                  | -                                     | 127                                | 16 709                  | 115 947                    |
| -                                                                  | -                                     | 86                                 | 8 112                   | 47 378                     |
| -                                                                  | 6 605                                 | 519                                | 294 083                 | 914 198                    |
| -                                                                  | -                                     | 26 832                             | 60 439                  | 419 210                    |
| -                                                                  | -                                     | 649                                | 147 148                 | 247 036                    |
| -                                                                  | -                                     | 621                                | 5 022                   | 34 500                     |
| -                                                                  | -                                     | 704                                | 161 583                 | 600 846                    |
| -                                                                  | 114 371                               | 485                                | 135 807                 | 601 681                    |
| -                                                                  | -                                     | 332                                | 6 746                   | 79 901                     |
| -                                                                  | 69 256                                | 10 793                             | 74 000                  | 572 618                    |
| -                                                                  | -                                     | 9                                  | 21 170                  | 24 894                     |
| -                                                                  | -                                     | 2 261                              | 252 625                 | 1 172 083                  |
| -                                                                  | -                                     | 16                                 | 48 797                  | 136 121                    |
| -                                                                  | 782 502                               | -                                  | 26 789                  | 3 560 440                  |
| -                                                                  | -                                     | 7                                  | 14 572                  | 53 022                     |
| -                                                                  | -                                     | 99                                 | 371 755                 | 9 114 192                  |
| -                                                                  | -                                     | 333                                | 2                       | 359                        |
| -                                                                  | <b>972 734</b>                        | <b>43 244</b>                      | <b>1 619 165</b>        | <b>17 635 032</b>          |

| Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
| -                                                                  | -                                     | 244                                | 18 391                  | 104 843                    |
| -                                                                  | -                                     | 175                                | 5 164                   | 19 980                     |
| -                                                                  | 6 706                                 | 251                                | 305 858                 | 839 975                    |
| -                                                                  | -                                     | 27 234                             | 69 366                  | 376 810                    |
| -                                                                  | -                                     | 932                                | 183 278                 | 273 164                    |
| -                                                                  | -                                     | 887                                | 17 726                  | 56 839                     |
| -                                                                  | -                                     | 261                                | 164 064                 | 552 013                    |
| -                                                                  | 119 154                               | 860                                | 81 919                  | 474 851                    |
| -                                                                  | -                                     | 560                                | 3 152                   | 73 847                     |
| -                                                                  | 78 717                                | 18 544                             | 71 323                  | 405 531                    |
| -                                                                  | -                                     | -                                  | 21 730                  | 36 747                     |
| -                                                                  | -                                     | 2 826                              | 123 052                 | 923 942                    |
| -                                                                  | -                                     | 103                                | 26 634                  | 94 192                     |
| -                                                                  | 823 357                               | -                                  | 9 583                   | 3 606 613                  |
| -                                                                  | -                                     | 8                                  | 10 545                  | 45 234                     |
| -                                                                  | -                                     | 102                                | 331 129                 | 8 062 400                  |
| -                                                                  | -                                     | 419                                | 1                       | 425                        |
| -                                                                  | <b>1 027 934</b>                      | <b>52 519</b>                      | <b>1 403 458</b>        | <b>15 853 820</b>          |



The following table presents credit risk exposure by Basel 3 exposure class and financial instrument:

| <b>2017</b><br><b>EUR ths.</b> | <b>Cash and cash<br/>balances</b> | <b>Loans and recei-<br/>vables to credit<br/>institutions</b> | <b>Loans and<br/>receivables to<br/>customers</b> | <b>Financial assets -<br/>held to maturity</b> | <b>Financial assets - held<br/>for trading</b> |
|--------------------------------|-----------------------------------|---------------------------------------------------------------|---------------------------------------------------|------------------------------------------------|------------------------------------------------|
| Sovereigns                     | -                                 | -                                                             | 217 113                                           | 2 542 292                                      | -                                              |
| Institutions                   | 53 802                            | 177 616                                                       | -                                                 | 92 205                                         | -                                              |
| Corporates                     | -                                 | -                                                             | 2 596 397                                         | 10 232                                         | -                                              |
| Retail                         | -                                 | -                                                             | 9 310 230                                         | -                                              | -                                              |
| <b>Total</b>                   | <b>53 802</b>                     | <b>177 616</b>                                                | <b>12 123 740</b>                                 | <b>2 644 730</b>                               | <b>-</b>                                       |

| <b>2016</b><br><b>EUR ths.</b> | <b>Cash and cash<br/>balances</b> | <b>Loans and recei-<br/>vables to credit<br/>institutions</b> | <b>Loans and<br/>receivables to<br/>customers</b> | <b>Financial assets -<br/>held to maturity</b> | <b>Financial assets - held<br/>for trading</b> |
|--------------------------------|-----------------------------------|---------------------------------------------------------------|---------------------------------------------------|------------------------------------------------|------------------------------------------------|
| Sovereigns                     | -                                 | -                                                             | 196 193                                           | 2 577 372                                      | -                                              |
| Institutions                   | -                                 | 89 942                                                        | 0                                                 | 63 468                                         | -                                              |
| Corporates                     | -                                 | -                                                             | 2 215 923                                         | 101                                            | -                                              |
| Retail                         | -                                 | -                                                             | 8 226 911                                         | -                                              | -                                              |
| <b>Total</b>                   | <b>-</b>                          | <b>89 942</b>                                                 | <b>10 639 027</b>                                 | <b>2 640 941</b>                               | <b>-</b>                                       |

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the table below and in other tables in section 'Credit risk'. Additionally to central governments, central banks, international organisations and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments, as well as public sector entities. Institutions include banks and recognised investment firms.

| Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |                |               |                  |                   |
|---|----------------|---------------|------------------|-------------------|
| - | 800 553        | -             | 26 737           | 3 586 696         |
| - | 51 204         | 10 261        | 44 959           | 430 048           |
| - | 120 977        | 32 884        | 1 058 040        | 3 818 530         |
| - | -              | 99            | 489 429          | 9 799 758         |
| - | <b>972 734</b> | <b>43 244</b> | <b>1 619 165</b> | <b>17 635 032</b> |

| Financial assets - designated at fair value through profit or loss | Financial assets - available for sale | Positive fair value of derivatives | Off-balance sheet items | Total credit risk exposure |
|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|
|--------------------------------------------------------------------|---------------------------------------|------------------------------------|-------------------------|----------------------------|

|   |                  |               |                  |                   |
|---|------------------|---------------|------------------|-------------------|
| - | 841 430          | -             | 9 554            | 3 624 548         |
| - | 60 644           | 17 149        | 43 365           | 274 569           |
| - | 125 860          | 35 267        | 914 634          | 3 291 785         |
| - | -                | 102           | 435 905          | 8 662 919         |
| - | <b>1 027 934</b> | <b>52 519</b> | <b>1 403 458</b> | <b>15 853 820</b> |

## Forbearance

In September 2014 the Bank has implemented a forbearance definition based on the EBA definition. The forborne exposure can be identified in both, performing and non-performing portfolios:

- Performing forbearance – forboren loans for customers without financial difficulties
- Non-performing forbearance – forboren loans for customers, which defaulted after forbearance
- Defaulted forbearance – forboren loans for customers in default

The following table presents carrying amounts of renegotiated loans, which are exposures with performing forbearance status:

| EUR ths.           | 2016          | 2017          |
|--------------------|---------------|---------------|
| Renegotiated loans | 96 867        | 81 615        |
| <b>Total</b>       | <b>96 867</b> | <b>81 615</b> |

The following table presents a summary of the Bank's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government and similar exposures:

| EUR ths.                           | Amount           |                  | Portion of total assets % |               |
|------------------------------------|------------------|------------------|---------------------------|---------------|
|                                    | 2016             | 2017             | 2016                      | 2017          |
| Cash and balances                  | 79 916           | 640              | 0,54%                     | 0,00%         |
| Loans and receivables to customers | 409 946          | 440 184          | 2,77%                     | 2,70%         |
| Securities portfolios              | 3 241 450        | 3 060 427        | 21,90%                    | 18,76%        |
| Deferred tax assets                | 34 166           | 33 758           | 0,23%                     | 0,21%         |
| <b>Total</b>                       | <b>3 765 478</b> | <b>3 535 009</b> | <b>25,44%</b>             | <b>21,67%</b> |

The following table presents a breakdown of state debt securities held by the Bank per portfolio and type of security:

| EUR ths.                                     | 2016             | 2017             |
|----------------------------------------------|------------------|------------------|
| <b>Financial assets - available for sale</b> | <b>762 164</b>   | <b>736 123</b>   |
| Slovak government Eurobonds                  | 762 164          | 736 123          |
| <b>Financial assets - held to maturity</b>   | <b>2 479 286</b> | <b>2 324 304</b> |
| State bonds denominated in EUR               | 2 446 130        | 2 295 245        |
| State bonds denominated in USD               | 33 156           | 29 059           |
| <b>Total</b>                                 | <b>3 241 450</b> | <b>3 060 427</b> |

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with positive outlook (since 7 April 2017).

## Market risk

Market risk is the risk of losses in balance sheet and off-balance sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- risk identification – identify all risks inherent in the trading operations and in new products (new products check) and ensure these are subject to adequate procedures and controls before being introduced or undertaken
- risk measurement – calculation of risk exposure using sensitivities and value-at-risk
- limits management – comprehensive limit system and limit allocation in order to restrict the maximum risk exposure
- risk monitoring and reporting

The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

### Methods and instruments employed

All positions of the Bank, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model, and respective profit or loss is calculated.

The main tool to measure market risk exposure in the Bank is sensitivity analysis and value-at-risk (VAR) which is complemented by back testing and stress testing programme.

VAR for trading book and investment portfolios of banking book estimates the maximum potential loss over 1-day holding period with 99 % confidence interval and is based on historical simulation (2-years history window, equally weighted) while all positions are treated via full valuation in the calculation (i.e. no simplification of positions for the purpose of VAR). VAR is measured consistently across all portfolios (both banking and trading book) and relevant market factors.

In order to validate the value-at-risk model, daily back testing

routines are applied. In the procedure the real value of closing position of the previous trading day is computed first using relevant market rates of that day. The same closing position is then revalued using the closing market rates of the current day. The difference between the two values is the so-called hypothetical profit and loss, i.e. profit and loss that would have been obtained if the position remained unchanged during the last trading day. If this profit or loss figure exceeds the value-at-risk figure, an exception is recorded and documented. Back testing is conducted not only for the whole trading book, but also for each trading desk and additionally for each applicable risk factor (interest rate, FX rate, stock price, volatility, etc.).

VAR is subject to some model assumptions (e.g. historical simulation), hence stress testing is established in order to partially tackle these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

VAR for the overall banking employs Monte Carlo simulation to generate potential future yield curves (99.9 or 0.01 percentiles of the simulated short rate paths) that are then used to calculate change in value caused by that shifts in yield curves.

Overall market risk of the entire balance sheet is also measured using economic value of equity measure based on EBA guidelines – all positions of the Bank are re-valued using an extreme (200 bp) up and down parallel shift of the yield curve and the resulting sensitivity is related to the available capital. Additional six non-parallel scenarios are also calculated.

### Risk mitigation and reporting

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VAR, sensitivity, and stop-loss limits. Limits are structured according to individual sub-portfolios (separate limits are defined for derivative trades). Monitoring is performed daily by SRM.

Risk reporting is done daily for relevant management and monthly for ALCO.

## Market risk measures

The following tables summarize the risk measures – Value at Risk of banking book and trading book:

| EUR mil.                                       | 2016  | 2017  |
|------------------------------------------------|-------|-------|
| Trading book VAR                               | 0,0   | 0,0   |
| Banking book VAR - ALM portfolio               | 14,5  | 10,5  |
| Banking book VAR - Corporate portfolio         | 1,8   | 1,0   |
| Overall Banking book VAR                       | 130,3 | 84,3  |
| Overall Banking book sensitivity (200bp shock) | 191,0 | 143,5 |

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

## FX risk

Basis principle behind managing FX risk is to transfer positions stemming from banking book activities to Erste Holding. However, in reasonable cases, banking book is permitted to hold strategic FX positions. This would typically be opened in order to hedge existing FX positions that are not explicitly seen on the balance sheet.

Strategic positions are subject to ALCO approval and shall be managed on a daily basis by Balance Sheet Management. They are covered by sufficient limit structure and reporting on VAR, stop-loss limit and P/L (responsibility of Strategic Risk Management).

## Liquidity risk

The liquidity risk is defined in the Bank as the inability to meet the Bank's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Banks will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Bank.

Liquidity risk is within the authority of ALCO. The Local Operating Liquidity Committee ('L-OLC') is responsible for operational managing and analysing of the liquidity situation of the Bank.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

## Liquidity strategy

The primary goal of the funding strategy in the year 2017 was to cover the planned funding gap coming from the core business efficiently in terms of structure and costs vs. risk tolerance. This has been successfully achieved as the Bank comfortably fulfills all regulatory and internal liquidity limits and keeps sufficient liquidity buffer composed mainly of government securities.

## Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period (SPA) on weekly basis. This analysis determines the maximum period during which the Bank can survive different crisis scenarios (severe market, idiosyncratic, or combined crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow.

Liquidity ratios defined by the regulator (LCR, NSFR and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO. Funding concentration

risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Strategic Risk Management provides the reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the Bank to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

## Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 2 months
- severe market crisis – over 2 months
- combined name and market crisis – over 1 month

The minimum volume of the liquidity buffer (counter-balancing capacity) is limited by 1.5 bn Eur. The Bank daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks, as well as unencumbered central bank eligible assets. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation.

Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR, NSFR, and local LCR ratios.

Funding Concentrations management - sum of top 10 biggest clients of each monitored group of wholesale funding providers (public, financial, credit institutions and corporates) may not account for more than 500 mil. Eur. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

## Analysis of liquidity risk

All regulatory ratios were well above the defined regulatory limits during the year 2017.

## Internal analysis

Counter-balancing capacity – the minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was around 4 bn Eur throughout 2017 (well above the 1,5 bn Eur limit).

| EUR mil. 2017                    | < 1 week     | 1 week – 1 month | 1 – 3 months | 3 – 6 months | 6 – 12 months |
|----------------------------------|--------------|------------------|--------------|--------------|---------------|
| Cash, excess reserve             | 353          | -                | -            | -            | -             |
| Liquid assets                    | 3 529        | -                | -            | -            | (39)          |
| <b>Counterbalancing capacity</b> | <b>3 882</b> | -                | -            | -            | <b>(39)</b>   |

| EUR mil. 2016                    | < 1 week     | 1 week – 1 month | 1 – 3 months | 3 – 6 months | 6 – 12 months |
|----------------------------------|--------------|------------------|--------------|--------------|---------------|
| Cash, excess reserve             | 306          | -                | -            | -            | -             |
| Liquid assets                    | 3 544        | (32)             | (11)         | (421)        | -             |
| <b>Counterbalancing capacity</b> | <b>3 850</b> | <b>(32)</b>      | <b>(11)</b>  | <b>(421)</b> | -             |

## Survival period horizon

During the year 2017 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 62 days but on average was about six month.

## Funding concentrations

During the year 2017 the funding concentrations limits was violated one time for credit institutions (by the amount of 131 mil. Eur) and four times for public institutions (by the amount about 60 mil. Eur). All of these limit violations were caused by short-dated deposits and all of them were covered by temporary increase of minimum liquidity reserve by the amount of exceeding.

## Operational risk

Main objectives of effective system of operational risk management are:

- set up a bank-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- properly identify major drivers of operational risk
- develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- implement and update of insurance program
- define outsourcing and internal control system principles
- prepare ORCO meetings
- continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- provide quality reporting and documentation

## Risk identification

Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and / or severity of loss events.

Risk identification should be generally forward-looking. While it is inevitable to use historical loss data, they should be supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors should be translatable into quantitative measures.

The most significant sources of operational risk in the Bank are: krádeže a podvody (externé a interné)

- theft and fraud (both external and internal)
- legal risks
- human processing error
- data, infrastructure, and system related risks
- cyber crime
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

#### Internal data

The Bank shall maintain a central database of operational risk events and losses. This should be as comprehensive as possible in that it captures all material activities throughout the Bank. Data collection is conducted via a web-based application EMUS which was upgraded in 2016. This application now provides more user friendly platform to deal with operational risk losses.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the Bank. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the Bank has an access right. Information on loss amounts, recoveries, date of event and other relevant descriptive information must be provided.

Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Financial Crime & Compliance, Card Services, Internal Services or Strategic Risk Management. Second stage is a data consistency check and is performed by Compliance and Operational Risk Management. Events should be categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process shall be covered by Operational Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc.

#### External data

As severe operational risk events are scarce, and may not have been captured in internal data collection, the Bank shall also include adequate external event data in its risk identification system. These should cover infrequent severe events with relevance to the Bank or financial industry. The Bank should systematically incorporate external data into its risk measurement methodology. External data collection shall be coordinated with

the Erste group efforts on this matter and will be conducted by Operational Risk Management.

#### Scenario analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Bank shall include such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Operational Risk Management.

#### Risk mapping and key risk indicators

The objective of this risk identification technique is to map the level of different operational risks across the Bank and to set up a measurable framework known as key risk indicators ('KRI') that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Operational Risk Management, with the help of respective senior or third level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the Bank. The resulting map will have three dimensions, namely:

- risk category
- business line / product
- functional process level – where applicable, this provides depth for the business line / product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI should have the following properties:

- it should be easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;
- it should be effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

#### Risk measurement

The Bank measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both, frequency of loss and amount of loss, is modelled and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9 % and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification



process should be used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems should be used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.

The Bank should be able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model should be validated through comparison to actual experience and appropriate corrections should be made. Design of the risk measurement model is within the responsibility of Erste Holding (for more details see the group AMA documentation). Modelling inputs are provided by Operational Risk Management.

### Managing operational risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Operational Risk Management has a harmonization role and performs activities of global scope.

In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance
- system of internal controls
- outsourcing
- risk acceptance
- decrease of the extent or disposal of the risky activity

Selection of the approach is by definition the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, the Board of Directors) for approval.

The following sub-sections give an overview of the main activities regarding operational risk management within the Bank.

Operational Risk and Compliance Committee is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

Operational Risk Management or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers and other representatives.

### System of internal controls

Each unit manager shall implement a system of internal controls ('ICS') within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc. Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that should be covered by operative controls.

Internal control system shall consist of:

- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself
- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:

- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the Bank's ICS in order to determine whether the Bank is following enacted policies and procedures. Operational Risk Management shall issue associated Internal Control System Policy giving detailed information on the system. However, SRM does not assume any coordination role in the implementation and execution of ICS by individual managers.

### Insurance

In order to mitigate operational risk, the Bank shall engage in a comprehensive insurance program. This should cover direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the Bank and its subsidiaries. The primary objective of the insurance program is to safeguard the Bank against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Operational Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which should, inter alia, cover procedures in case of insurance incident.

### Outsourcing

Outsourcing is defined as long-term delegation of internal operation to external entity that specializes in that operation. In context of operational risk management, the primary focus is on

outsourcing of banking operations.

Outsourcing should be governed by the following high-level principles:

- outsourcing of any banking operation must be approved by respective decision making body
- the Bank neither relinquishes the responsibility for, nor does it get disposed of the risks brought along by such activity
- special attention is to be paid to legal and regulatory issues

General outsourcing policy is defined on Erste Holding level. Strategic Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These shall be documented in associated internal policy. All outsourced activities must strictly follow this policy.

Each outsourcing must have an outsourcing sponsor and an outsourcing manager (both coming from the Bank) who are responsible for governance, correct functioning, operational risk, and other issues related to the outsourced activity.

Operational risk management related to outsourcing is within the responsibility of respective outsourcing sponsor and outsourcing manager. Strategic Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

## 36 Fair values of financial assets and liabilities

The best indication of a fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (Level 1 of the fair value hierarchy).

In case a market quote is used for a valuation, but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators), the instrument is classified as Level 2 of the fair value hierarchy. In case no market prices are available, the fair value is determined by using valuation models, which are based on observable market data. If all the significant inputs in a valuation model are observable, the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor using valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently, the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations, typically credit spreads derived from both external sources (similar securities or issuers) and internal sources

(risk parameters such as rating, PD or LGD) are used besides observable parameters.

### Financial instruments measured at fair value

All financial instruments of this category are measured at fair value on a recurring basis.

In the Bank the measurement of fair value is primarily based on external sources of data (stock market prices or broker quotes in highly liquid market segments). The financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities, liquid OTC bonds and derivatives.

### Description of the valuation models and inputs

The Bank uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

#### Securities

For plain vanilla debt securities (fixed and floating) the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instrument. If no close proxy instrument is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including also methods described for OTC-derivatives. All securities are valued using the bid/ask levels (depending whether asset or liability), i.e. more conservative than the mid level.

#### OTC-derivative financial instruments

Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps, commodity swaps) are valued by standard valuation models. These models include discounting cash flow models, option models of Black-Scholes-type and Hull-White-type. Models are calibrated on quoted market data (including implied volatilities). Valuation model for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used. The Bank values derivatives at mid-market levels.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC-derivatives. For CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit

quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. The Bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant products and portfolios. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties, which are not traded in an active market, is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances. Netting has only been considered for a few counterparties where the impact was material. For those netting has been applied for both CVA and DVA. The methodology and the calculation itself are carried out by Erste Holding.

For collateralised derivatives the effect of collateral received is considered and reduces the amount of CVA accordingly. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

As at 31 December 2017 the cumulative CVA adjustment amounted 0,3 mil. Eur (2016: 1,1 mil.) and the cumulative DVA adjustment amounted 0,2 mil. Eur (2016: 0,8 mil. Eur).

### **Description of the valuation process within Level 3**

Level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant

historical data and benchmarking to similar transactions. This involves estimation and expert judgment.

The responsibility for valuation of a position of measured at fair value is carried out by risk management unit which is independent from all trading, sales or investment units.

## Fair value hierarchy

The methods used to determine fair values with respect to the levels of fair value hierarchy were as follows:

| EUR ths.                                                 | Quoted market prices in active markets |                | Marked to model based on observable market data |                | Marked to model based on non-observable inputs |              | Total            |                  |
|----------------------------------------------------------|----------------------------------------|----------------|-------------------------------------------------|----------------|------------------------------------------------|--------------|------------------|------------------|
|                                                          | Level 1                                |                | Level 2                                         |                | Level 3                                        |              | Total            |                  |
|                                                          | 2016                                   | 2017           | 2016                                            | 2017           | 2016                                           | 2017         | 2016             | 2017             |
| <b>Assets</b>                                            |                                        |                |                                                 |                |                                                |              |                  |                  |
| Financial assets held for trading                        | -                                      | -              | 44 409                                          | 36 484         | 405                                            | -            | 44 814           | 36 484           |
| Derivatives held for trading                             | -                                      | -              | 44 409                                          | 36 484         | 405                                            | -            | 44 814           | 36 484           |
| Financial assets designated at FV through profit or loss | -                                      | -              | -                                               | -              | 6 118                                          | 5 600        | 6 118            | 5 600            |
| Financial assets - available for sale                    | 866 076                                | 835 376        | 170 731                                         | 182 185        | 25 836                                         | 3 058        | 1 062 643        | 1 020 619        |
| Derivatives - Hedge accounting                           | -                                      | -              | 7 705                                           | 6 761          | -                                              | -            | 7 705            | 6 761            |
| <b>Total</b>                                             | <b>866 076</b>                         | <b>835 376</b> | <b>222 845</b>                                  | <b>225 430</b> | <b>32 359</b>                                  | <b>8 658</b> | <b>1 121 280</b> | <b>1 069 464</b> |
| <b>Liabilities</b>                                       |                                        |                |                                                 |                |                                                |              |                  |                  |
| Financial liabilities held for trading                   | -                                      | -              | 42 524                                          | 33 344         | 288                                            | -            | 42 812           | 33 344           |
| Derivatives held for trading                             | -                                      | -              | 42 524                                          | 33 344         | 288                                            | -            | 42 812           | 33 344           |
| Derivatives - Hedge accounting                           | -                                      | -              | 52 389                                          | 42 100         | -                                              | -            | 52 389           | 42 100           |
| <b>Total</b>                                             | <b>-</b>                               | <b>-</b>       | <b>94 913</b>                                   | <b>75 444</b>  | <b>288</b>                                     | <b>-</b>     | <b>95 201</b>    | <b>75 444</b>    |

Allocation of positions to the levels of fair value hierarchy and any changes between these levels are reflected at the end of the reporting period.

## Changes in volumes of Level 1 and Level 2

There were no significant transfers between Level 1 and Level 2 of financial instruments measured at fair value on the balance sheet.

## Movements in Level 3

The development of fair value of the securities for which valuation models are based on non-observable inputs was as follows:

| EUR ths.                                                           | 2016          | Gains / Losses in PL | Gains / Losses in OCI | Purchase | Sales/ Settlements | Transfer into Level 3 | Transfer out of level 3 | 2017         |
|--------------------------------------------------------------------|---------------|----------------------|-----------------------|----------|--------------------|-----------------------|-------------------------|--------------|
| <b>Assets</b>                                                      |               |                      |                       |          |                    |                       |                         |              |
| Financial assets - held for trading                                | 405           | -                    | -                     | -        | -                  | -                     | (405)                   | -            |
| Derivatives                                                        | 405           | -                    | -                     | -        | -                  | -                     | (405)                   | -            |
| Financial assets - designated at fair value through profit or loss | 6 118         | (517)                | -                     | -        | -                  | -                     | -                       | 5 602        |
| Financial assets - available for sale                              | 25 836        | -                    | 2 380                 | -        | (298)              | 27 394                | (52 254)                | 3 058        |
| <b>Total assets</b>                                                | <b>32 359</b> | <b>(517)</b>         | <b>2 380</b>          | <b>-</b> | <b>(298)</b>       | <b>27 394</b>         | <b>(52 659)</b>         | <b>8 660</b> |
| <b>Liabilities</b>                                                 |               |                      |                       |          |                    |                       |                         |              |
| Financial liabilities - held for trading                           | 288           | -                    | -                     | -        | -                  | -                     | (288)                   | -            |
| Derivatives                                                        | 288           | -                    | -                     | -        | -                  | -                     | (288)                   | -            |
| <b>Total liabilities</b>                                           | <b>288</b>    | <b>-</b>             | <b>-</b>              | <b>-</b> | <b>-</b>           | <b>-</b>              | <b>(288)</b>            | <b>-</b>     |

| EUR ths.                                                           | 2015          | Gains /<br>Losses<br>in PL | Gains /<br>Losses<br>in OCI | Purchase     | Sales/<br>Settlements | Transfer into<br>Level 3 | Transfer out<br>of level 3 | 2016          |
|--------------------------------------------------------------------|---------------|----------------------------|-----------------------------|--------------|-----------------------|--------------------------|----------------------------|---------------|
| <b>Assets</b>                                                      |               |                            |                             |              |                       |                          |                            |               |
| Financial assets - held for trading                                | 902           | (2 135)                    | -                           | -            | (902)                 | 31 295                   | (28 755)                   | 405           |
| Derivatives                                                        | 902           | (2 135)                    | -                           | -            | (902)                 | 31 295                   | (28 755)                   | 405           |
| Financial assets - designated at fair value through profit or loss | 11 028        | (828)                      | -                           | -            | (4 081)               | -                        | -                          | 6 118         |
| Financial assets - available for sale                              | 37 477        | 738                        | 2 370                       | 5 740        | (33 363)              | 34 700                   | (21 824)                   | 25 836        |
| <b>Total assets</b>                                                | <b>49 407</b> | <b>(2 225)</b>             | <b>2 370</b>                | <b>5 740</b> | <b>(38 346)</b>       | <b>65 995</b>            | <b>(50 579)</b>            | <b>32 359</b> |
| <b>Liabilities</b>                                                 |               |                            |                             |              |                       |                          |                            |               |
| Financial liabilities - held for trading                           | -             | -                          | -                           | -            | -                     | 288                      | -                          | 288           |
| Derivatives                                                        | -             | -                          | -                           | -            | -                     | 288                      | -                          | 288           |
| <b>Total liabilities</b>                                           | <b>-</b>      | <b>-</b>                   | <b>-</b>                    | <b>-</b>     | <b>-</b>              | <b>288</b>               | <b>-</b>                   | <b>288</b>    |

Gains or losses on Level 3 financial instruments held at the end of the reporting period, which are included in the income statement were as follows:

| EUR ths.                                                 | 2016           | 2017         |
|----------------------------------------------------------|----------------|--------------|
| <b>Assets</b>                                            |                |              |
| Financial assets held for trading                        | 405            | -            |
| Financial assets designated at FV through profit or loss | (1 377)        | (517)        |
| <b>Liabilities</b>                                       |                |              |
| Financial liabilities held for trading                   | (288)          | -            |
| <b>Total</b>                                             | <b>(1 260)</b> | <b>(517)</b> |

The amount of financial instruments in Level 3 consists solely of a few positions in illiquid securities.

## Fair value of financial instruments disclosed in the notes

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2017:

| EUR ths.                                            | Carrying amount | Fair value | Quoted market prices in active marketes<br>Level 1 | Marked to model based on observable market data<br>Level 2 | Marked to model based on non-observable inputs<br>Level 3 |
|-----------------------------------------------------|-----------------|------------|----------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|
| <b>Assets</b>                                       |                 |            |                                                    |                                                            |                                                           |
| Cash and cash balances                              | 424 229         | 424 229    | -                                                  | -                                                          | -                                                         |
| Financial assets - held to maturity                 | 2 644 402       | 3 064 786  | 2 960 691                                          | 85 443                                                     | 18 652                                                    |
| Loans and receivables to credit institutions        | 177 616         | 181 674    | -                                                  | -                                                          | 181 674                                                   |
| Loans and receivables to customers                  | 11 758 950      | 12 122 501 | -                                                  | -                                                          | 12 122 501                                                |
| thereof: lending for house purchase                 | 6 841 004       | 7 052 507  | -                                                  | -                                                          | 7 052 507                                                 |
| thereof: credit for consumption                     | 1 580 374       | 1 629 235  | -                                                  | -                                                          | 1 629 235                                                 |
| thereof: corporate loans and others                 | 3 337 572       | 3 440 759  | -                                                  | -                                                          | 3 440 759                                                 |
| <b>Liabilities</b>                                  |                 |            |                                                    |                                                            |                                                           |
| Financial liabilities - measured at amortised costs | 14 628 022      | 14 645 263 | -                                                  | 1 592 231                                                  | 13 053 032                                                |
| Deposits from banks                                 | 488 564         | 499 905    | -                                                  | -                                                          | 499 905                                                   |
| Deposits from customers                             | 12 481 221      | 12 462 106 | -                                                  | -                                                          | 12 462 106                                                |
| Debt securities issued                              | 1 567 216       | 1 592 231  | -                                                  | 1 592 231                                                  | -                                                         |
| Other financial liabilities                         | 91 021          | 91 021     | -                                                  | -                                                          | 91 021                                                    |

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2016:

| EUR ths.                                            | Carrying amount | Fair value | Quoted market prices in active marketes<br>Level 1 | Marked to model based on observable market data<br>Level 2 | Marked to model based on non-observable inputs<br>Level 3 |
|-----------------------------------------------------|-----------------|------------|----------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------|
| <b>Assets</b>                                       |                 |            |                                                    |                                                            |                                                           |
| Cash and cash balances                              | 396 973         | 396 973    | -                                                  | -                                                          | -                                                         |
| Financial assets - held to maturity                 | 2 640 662       | 3 117 560  | 3 025 219                                          | 58 830                                                     | 33 510                                                    |
| Loans and receivables to credit institutions        | 89 906          | 90 253     | -                                                  | -                                                          | 90 253                                                    |
| Loans and receivables to customers                  | 10 296 363      | 10 662 263 | -                                                  | -                                                          | 10 662 263                                                |
| thereof: lending for house purchase                 | 6 000 637       | 6 213 880  | -                                                  | -                                                          | 6 213 880                                                 |
| thereof: credit for consumption                     | 1 441 492       | 1 492 718  | -                                                  | -                                                          | 1 492 718                                                 |
| thereof: corporate loans and others                 | 2 854 234       | 2 955 664  | -                                                  | -                                                          | 2 955 664                                                 |
| <b>Liabilities</b>                                  |                 |            |                                                    |                                                            |                                                           |
| Financial liabilities - measured at amortised costs | 12 984 978      | 12 983 145 | -                                                  | 373 849                                                    | 12 609 295                                                |
| Deposits from banks                                 | 278 193         | 280 776    | -                                                  | -                                                          | 280 776                                                   |
| Deposits from customers                             | 11 389 378      | 11 344 642 | -                                                  | -                                                          | 11 344 642                                                |
| Debt securities issued                              | 1 317 407       | 1 357 727  | -                                                  | 373 849                                                    | 983 878                                                   |
| Other financial liabilities                         | -               | -          | -                                                  | -                                                          | -                                                         |

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of securities issued and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, where available. Otherwise it is estimated by taking into consideration the actual interest rate environment and they are transferred to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads and these are allocated to Level 3.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities.

## **Fair value of non-financial assets**

The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification.

### **Property, equipment and other assets**

Property, equipment and other assets are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

Fair values of non-financial assets owned by the Bank are based on valuation reports relying essentially on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets). Such measurements are disclosed as Level 2 of the fair value hierarchy. If fair values of non-financial assets result from valuation models using expected future rental income method they are presented in Level 3 of the fair value hierarchy.

For non-financial assets owned by the Bank the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenants and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

### **Investment property**

Investment property is measured at fair value on recurring basis.

As at 31 December 2017 the estimated fair value of investment property was in amount of 2,0 mil. Eur (2016: 2,3 mil. Eur). The Bank uses its own model for determining the fair value of investment property, which is based on discounting future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location. Such measurements are presented in Level 3 of the fair value hierarchy.



## 37 Current and non-current assets and liabilities

The classification of assets, liabilities and equity to current (due within 1 year) and non-current (due over 1 year) based on their expected maturity is shown in the following table:

| EUR ths.                                                           | 2016             |                   | 2017             |                   |
|--------------------------------------------------------------------|------------------|-------------------|------------------|-------------------|
|                                                                    | < 1 year         | > 1 year          | < 1 year         | > 1 year          |
| <b>Assets</b>                                                      |                  |                   |                  |                   |
| Cash and cash balances                                             | 394 845          | 2 128             | 424 221          | 8                 |
| Financial assets - held for trading                                | 6 753            | 38 061            | 2 046            | 34 438            |
| Derivatives                                                        | 6 753            | 38 061            | 2 046            | 34 438            |
| Financial assets - designated at fair value through profit or loss | -                | 6 118             | -                | 5 600             |
| Financial assets - available for sale                              | 34 976           | 1 028 345         | 26 953           | 993 666           |
| Financial assets - held to maturity                                | 445 846          | 2 194 816         | 26 464           | 2 617 938         |
| Loans and receivables to credit institutions                       | 89 906           | -                 | 177 616          | -                 |
| Loans and receivables to customers                                 | 1 390 432        | 8 905 931         | 1 648 141        | 10 110 809        |
| Derivatives hedge accounting                                       | -                | 7 705             | -                | 6 761             |
| Property, plant, equipment                                         | -                | 99 289            | -                | 90 255            |
| Investment properties                                              | -                | 2 388             | -                | 2 031             |
| Intangible assets                                                  | -                | 71 955            | -                | 55 457            |
| Investments in subsidiaries and associates                         | -                | 23 041            | -                | 23 041            |
| Current tax assets                                                 | -                | -                 | 10 618           | -                 |
| Deferred tax assets                                                | -                | 34 166            | -                | 33 758            |
| Other assets                                                       | 24 262           | -                 | 24 922           | -                 |
| <b>Total</b>                                                       | <b>2 387 020</b> | <b>12 413 943</b> | <b>2 340 981</b> | <b>13 973 762</b> |
| <b>Liabilities</b>                                                 |                  |                   |                  |                   |
| Financial liabilities - held for trading                           | 6 889            | 35 923            | 2 267            | 31 077            |
| Derivatives                                                        | 6 889            | 35 923            | 2 267            | 31 077            |
| Financial liabilities - measured at amortised costs                | 5 393 982        | 7 590 996         | 5 782 810        | 8 845 212         |
| Deposits from banks                                                | 116 163          | 162 030           | 287 434          | 201 130           |
| Deposits from customers                                            | 5 115 980        | 6 273 398         | 5 122 051        | 7 359 170         |
| Debt securities issued                                             | 161 839          | 1 155 568         | 282 304          | 1 284 912         |
| Other financial liabilities                                        | -                | -                 | 91 021           | -                 |
| Derivatives hedge accounting                                       | -                | 52 389            | -                | 42 100            |
| Provisions                                                         | -                | 22 426            | -                | 25 067            |
| Current tax liabilities                                            | 4 007            | -                 | -                | -                 |
| Other Liabilities                                                  | 160 982          | -                 | 81 664           | -                 |
| <b>Total</b>                                                       | <b>5 565 860</b> | <b>7 701 734</b>  | <b>5 866 741</b> | <b>8 943 456</b>  |

The following table details the Bank's non-derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

| <b>2017</b>                                         | <b>On demand and less than 1M</b> | <b>1 to 3M</b> | <b>3M to 1Y</b>  | <b>1 to 5Y</b>   | <b>Over 5Y</b> | <b>Total</b>      |
|-----------------------------------------------------|-----------------------------------|----------------|------------------|------------------|----------------|-------------------|
| <b>EUR ths.</b>                                     |                                   |                |                  |                  |                |                   |
| Financial liabilities - measured at amortised costs |                                   |                |                  |                  |                |                   |
| Deposits from banks                                 | 180 884                           | 80 072         | 26 426           | 87 928           | 111 130        | 486 441           |
| Deposits from customers                             | 10 332 547                        | 579 226        | 1 451 867        | 119 174          | 30             | 12 482 845        |
| Debt securities issued                              | 160                               | 169 001        | 118 129          | 1 142 165        | 181 982        | 1 611 437         |
| Other financial liabilities                         | 91 021                            | -              | -                | -                | -              | 91 021            |
| Guarantees provided                                 | 3 085                             | 31 727         | 111 603          | 166 662          | 6 045          | 319 122           |
| Guarantees from letter of credit                    | 357                               | 1 086          | 3 351            | 5 824            | -              | 10 618            |
| Loan commitments and undrawn loans                  | 1 289 425                         | -              | -                | -                | -              | 1 289 425         |
| <b>Total</b>                                        | <b>11 897 479</b>                 | <b>861 112</b> | <b>1 711 376</b> | <b>1 521 753</b> | <b>299 187</b> | <b>16 290 908</b> |

| <b>2016</b>                                         | <b>On demand and less than 1M</b> | <b>1 to 3M</b> | <b>3M to 1Y</b>  | <b>1 to 5Y</b>   | <b>Over 5Y</b> | <b>Total</b>      |
|-----------------------------------------------------|-----------------------------------|----------------|------------------|------------------|----------------|-------------------|
| <b>EUR ths.</b>                                     |                                   |                |                  |                  |                |                   |
| Financial liabilities - measured at amortised costs |                                   |                |                  |                  |                |                   |
| Deposits from banks                                 | 11 027                            | 84 778         | 20 414           | 80 078           | 84 442         | 280 739           |
| Deposits from customers                             | 8 954 535                         | 711 914        | 1 481 666        | 245 157          | -              | 11 393 272        |
| Debt securities issued                              | 9 470                             | 5 221          | 152 481          | 1 007 501        | 199 009        | 1 373 682         |
| Other financial liabilities                         | -                                 | -              | -                | -                | -              | -                 |
| Guarantees provided                                 | 2 051                             | 37 518         | 63 466           | 176 908          | 6 358          | 286 301           |
| Guarantees from letter of credit                    | 515                               | 3 007          | 3 898            | 142              | -              | 7 562             |
| Loan commitments and undrawn loans                  | 1 109 595                         | -              | -                | -                | -              | 1 109 595         |
| <b>Total</b>                                        | <b>10 087 194</b>                 | <b>842 438</b> | <b>1 721 925</b> | <b>1 509 786</b> | <b>289 809</b> | <b>14 451 151</b> |

## 38 Own funds and capital requirements

### Regulatory scope of application

Hereby Slovenská sporiteľňa, a.s. fulfills the disclosure requirements according to the Capital Requirements Regulation (CRR), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

### Regulatory requirements

Since 1 January 2014 the Bank has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the Capital Requirements Regulation (CRR) and the Capital Requirement Directive (CRD IV) that were enacted in national law, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR and the aforementioned technical standards are fully applied by the Bank for regulatory purposes and for the disclosure of regulatory information.

The Bank fulfilled regulatory capital requirements in both years 2017 and 2016 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

### Accounting principles

The financial and regulatory figures published by the Bank are based on IFRS regulatory capital components. Eligible capital components derive from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation for items where the regulatory treatment is not equal to the accounting requirements.

The unified reporting date of the consolidated financial statements and consolidated regulatory figures of the Bank is 31 December of each respective year.

### Consideration of financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of common equity Tier 1 of the Bank

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10 % of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10 % of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art. 56 (c) and 59 CRR and Tier 2 items according to Art. 66 (c) and 70 CRR, exceeds a defined threshold of 10 % in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10 % threshold. Amounts that are equal to or less than 10 % of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10 % of the CET1 of the reporting institution. If the 10 % threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250 % according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65 % of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250 % RW shall be applied for the amount not exceeding the 17.65 % threshold according to Article 48 (4) CRR.

Beside the 17.65 % combined threshold, a 10 % threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability arising from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10 % of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250 % risk weight (RW) according to Article 48 (4) CRR.

At the reporting date, the Bank did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the own funds of the Bank and therefore are considered in RWAs.

The following table shows threshold calculations according to Articles 46 and 48 CRR:

| EUR ths.                                                                                                                                                                                                 | 2016           | 2017           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Non significant investments in financial sector entities</b>                                                                                                                                          |                |                |
| Threshold (10 % of CET1)                                                                                                                                                                                 | 104 533        | 110 281        |
| Holdings in CET1                                                                                                                                                                                         | 678            | 3 059          |
| Holdings in AT1                                                                                                                                                                                          | -              | -              |
| Holdings in T2                                                                                                                                                                                           | -              | -              |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>103 855</b> | <b>107 222</b> |
| <b>Significant investments in financial sector entities</b>                                                                                                                                              |                |                |
| Threshold (10 % of CET1)                                                                                                                                                                                 | 104 533        | 110 281        |
| Holdings in CET1                                                                                                                                                                                         | 23 038         | 23 038         |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>81 496</b>  | <b>87 243</b>  |
| <b>Deferred tax assets</b>                                                                                                                                                                               |                |                |
| Threshold (10 % of CET1)                                                                                                                                                                                 | 104 533        | 110 281        |
| Deferred tax assets that are dependent on future profitability and arise from temporary differences                                                                                                      | 32 440         | 32 982         |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>72 094</b>  | <b>77 299</b>  |
| <b>Combined threshold for deferred tax assets and significant investments</b>                                                                                                                            |                |                |
| Threshold (17.65 % of CET1)                                                                                                                                                                              | 184 502        | 194 646        |
| Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment | 55 477         | 56 019         |
| <b>Distance to threshold</b>                                                                                                                                                                             | <b>129 024</b> | <b>138 626</b> |

## Own funds

Own funds of an institution according to CRR consist of the sum of the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2

capital of the institution. To assess the capital adequacy, each Tier of the capital after applying all prudential filters and deductions is expressed as a percentage of the total risk exposure amount.

The following table shows the structure of own funds according to implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (the positions not relevant for the Bank were excluded):

| EUR ths.                                                                                                                            | Article pursuant to CRR                  | 2016             | 2017             |
|-------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------|------------------|
| <b>Common equity tier 1 capital (CET1)</b>                                                                                          |                                          |                  |                  |
| Capital instruments eligible as CET1                                                                                                | 26 (1) (a) (b), 27 to 30, 36 (1) (f), 42 | 212 000          | 212 000          |
| Own CET1 instruments                                                                                                                | 36 (1) (f), 42                           | -                | -                |
| Retained earnings                                                                                                                   | 26 (1) (c), 26 (2)                       | 875 988          | 886 015          |
| Interim profit                                                                                                                      | 26 (2)                                   | -                | -                |
| Accumulated other comprehensive income                                                                                              | 4 (1) (100), 26 (1) (d)                  | 82 938           | 94 254           |
| Minority interest recognised in CET1                                                                                                | 4 (1) (120) 84                           | -                | -                |
| Transitional adjustments due to additional minority interests                                                                       | 479, 480                                 | -                | -                |
| Prudential filter: cash flow hedge reserve                                                                                          | 33 (1) (a)                               | -                | -                |
| Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities                         | 33 (1) (b)                               | -                | -                |
| Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities     | 33 (1) (c), 33 (2)                       | 752              | 241              |
| Value adjustments due to the requirements for prudent valuation                                                                     | 34, 105                                  | (4 428)          | (3 394)          |
| Goodwill                                                                                                                            | 4 (1) (113), 36 (1) (b), 37              | -                | -                |
| Other intangible assets                                                                                                             | 4 (1) (115), 36 (1) (b), 37 (a)          | (71 955)         | (55 457)         |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | 36 (1) (c), 38                           | (1 726)          | (777)            |
| IRB shortfall of credit risk adjustments to expected losses                                                                         | 36 (1) (d), 40, 158, 159                 | -                | -                |
| Development of unaudited risk provisions during the year (EU No 183/2014)                                                           |                                          | (48 235)         | (30 073)         |
| Excess of deduction from AT1 items over AT1                                                                                         | 36 (1) (j)                               | -                | -                |
| <b>Common equity tier 1 capital (CET1)</b>                                                                                          | <b>50</b>                                | <b>1 045 335</b> | <b>1 102 809</b> |
| <b>Additional tier 1 capital (AT1)</b>                                                                                              |                                          |                  |                  |
| Capital instruments eligible as AT1                                                                                                 | 51 (a), 52 to 54, 56 (a), 57             | 150 000          | 150 000          |
| Own AT1 instruments                                                                                                                 | 52 (1) (b), 56 (a), 57                   | -                | -                |
| Instruments issued by subsidiaries that are given recognition in AT1                                                                | 85, 86                                   | -                | -                |
| Transitional adjustments due to grandfathered AT1 instruments                                                                       | 483 (4) (5), 484 to 487, 489, 491        | -                | -                |
| AT1 instruments of financial sector entities where the institution has a significant investment                                     | 4 (1) (27), 56 (d), 59, 79               | -                | -                |
| Excess of deduction from T2 items over T2                                                                                           | 36 (1) (j)                               | -                | -                |
| <b>Additional tier 1 capital (AT1)</b>                                                                                              | <b>61</b>                                | <b>150 000</b>   | <b>150 000</b>   |
| <b>Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)</b>                                     | <b>25</b>                                | <b>1 195 335</b> | <b>1 252 809</b> |

| EUR ths.                                                                                           | Article pursuant to CRR              | 2016             | 2017             |
|----------------------------------------------------------------------------------------------------|--------------------------------------|------------------|------------------|
| <b>Tier 2 capital (T2)</b>                                                                         |                                      |                  |                  |
| Capital instruments and subordinated loans eligible as T2                                          | 62 (a), 63 to 65, 66 (a), 67         | 48 065           | 37 877           |
| Own T2 instruments                                                                                 | 63 (b) (i), 66 (a), 67               | -                | -                |
| Instruments issued by subsidiaries recognised in T2                                                | 87, 88                               | -                | -                |
| Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries | 480                                  | -                | -                |
| Transitional adjustments due to grandfathered T2 instruments and subordinated loans                | 483 (6) (7), 484, 486, 488, 490, 491 | -                | -                |
| IRB excess of provisions over expected losses eligible                                             | 62 (d)                               | 27 124           | 32 389           |
| Standardised approach general credit risk adjustments                                              | 62 (c)                               | -                | -                |
| Other transitional adjustments to T2                                                               | 476, 477, 478, 481                   | -                | -                |
| T2 instruments of financial sector entities where the institution has a significant investment     | 4 (1) (27), 66 (d), 68, 69, 79       | -                | -                |
| <b>Tier 2 capital (T2)</b>                                                                         | <b>71</b>                            | <b>75 189</b>    | <b>70 266</b>    |
| <b>Total own funds</b>                                                                             | <b>4 (1) (118) and 72</b>            | <b>1 270 523</b> | <b>1 323 075</b> |
| <b>Capital requirement</b>                                                                         | <b>92 (3), 95, 96, 98</b>            | <b>475 719</b>   | <b>569 040</b>   |
| <b>CET1 capital ratio</b>                                                                          | <b>92 (2) (a)</b>                    | <b>17,58%</b>    | <b>15,50%</b>    |
| <b>Tier 1 capital ratio</b>                                                                        | <b>92 (2) (b)</b>                    | <b>20,10%</b>    | <b>17,61%</b>    |
| <b>Total capital ratio</b>                                                                         | <b>92 (2) (c)</b>                    | <b>21,37%</b>    | <b>18,60%</b>    |

The Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

| Eur tis.                                         | Article pursuant to CRR                          | Total risk       |                  | Capital requirement |                |
|--------------------------------------------------|--------------------------------------------------|------------------|------------------|---------------------|----------------|
|                                                  |                                                  | 2016             | 2017             | 2016                | 2017           |
| <b>Total Risk Exposure Amount</b>                | <b>92 (3), 95, 96, 98</b>                        | <b>5 946 490</b> | <b>7 113 001</b> | <b>475 719</b>      | <b>569 040</b> |
| Risk weighted assets (credit risk)               | 92 (3) (a) (f)                                   | 4 799 945        | 5 697 110        | 383 996             | 455 769        |
| Standardised approach                            |                                                  | 279 308          | 298 904          | 22 345              | 23 912         |
| IRB approach                                     |                                                  | 4 520 637        | 5 398 206        | 361 651             | 431 857        |
| Settlement Risk                                  | 92 (3) (c) (ii), 92 (4) (b)                      | -                | -                | -                   | -              |
| Trading book, foreign FX risk and commodity risk | 92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b) | 21 868           | 4 031            | 1 749               | 322            |
| Operational Risk                                 | 92 (3) (e), 92 (4) (b)                           | 1 083 050        | 1 382 282        | 86 644              | 110 583        |
| Exposure for CVA                                 | 92 (3) (d)                                       | 41 627           | 29 578           | 3 330               | 2 366          |
| Other exposure amounts incl. Basel 1 floor       | 3, 458, 459, 500                                 | -                | -                | -                   | -              |

The following tables show equity items and how they are affecting regulatory own funds:

| 2017<br>EUR ths.                                               | Own funds<br>disclosure table -<br>reference | Equity    | Regulatory adj-<br>ustments | Own funds |
|----------------------------------------------------------------|----------------------------------------------|-----------|-----------------------------|-----------|
| Subscribed capital                                             |                                              | 212 000   | -                           | 212 000   |
| Capital reserve                                                |                                              | 118 899   | -                           | 118 899   |
| AT1 capital instruments and the related share premium accounts | a                                            | 150 000   | -                           | 150 000   |
| Retained earnings                                              | b                                            | 767 337   | (221)                       | 767 116   |
| Other comprehensive income (OCI)                               | c                                            | 94 254    | -                           | 94 254    |
| Cash flow hedge reserve                                        | g                                            | -         | -                           | -         |
| Available for sale reserve                                     |                                              | 119 917   | -                           | 119 917   |
| Unrealized gains according to Art. 35 CRR                      | h                                            | 119 922   | -                           | 119 922   |
| Unrealized losses according to Art. 35 CRR                     |                                              | (5)       | -                           | (5)       |
| Other                                                          |                                              | -         | -                           | -         |
| Currency translation                                           |                                              | -         | -                           | -         |
| Remeasurement of net liability of defined pension plans        |                                              | (609)     | -                           | (609)     |
| Deferred tax                                                   |                                              | (25 055)  | -                           | (25 055)  |
| Profit or loss attributable to equity holders of the parent    |                                              | 162 056   | (162 056)                   | -         |
| Other                                                          |                                              | -         | -                           | -         |
| Equity attributable to the owners of the parent                |                                              | 1 504 546 | (221)                       | 1 342 269 |
| Equity attributable to non-controlling interests               | d                                            | -         | -                           | -         |
| Total equity                                                   |                                              | 1 504 546 | (221)                       | 1 342 269 |

| 2016<br>EUR ths.                                               | Own funds<br>disclosure table -<br>reference | Equity    | Regulatory adj-<br>ustments | Own funds |
|----------------------------------------------------------------|----------------------------------------------|-----------|-----------------------------|-----------|
| Subscribed capital                                             |                                              | 212 000   | -                           | 212 000   |
| Capital reserve                                                |                                              | 118 899   | -                           | 118 899   |
| AT1 capital instruments and the related share premium accounts | a                                            | 150 000   | -                           | 150 000   |
| Retained earnings                                              | b                                            | 757 089   | -                           | 757 089   |
| Other comprehensive income (OCI)                               | c                                            | 82 938    | -                           | 82 938    |
| Cash flow hedge reserve                                        | g                                            | -         | -                           | -         |
| Available for sale reserve                                     |                                              | 105 975   | -                           | 105 975   |
| Unrealized gains according to Art. 35 CRR                      | h                                            | 106 675   | -                           | 106 675   |
| Unrealized losses according to Art. 35 CRR                     |                                              | (699)     | -                           | (699)     |
| Other                                                          |                                              | -         | -                           | -         |
| Currency translation                                           |                                              | -         | -                           | -         |
| Remeasurement of net liability of defined pension plans        |                                              | (783)     | -                           | (783)     |
| Deferred tax                                                   |                                              | (22 255)  | -                           | (22 255)  |
| Profit or loss attributable to equity holders of the parent    |                                              | 212 221   | (212 221)                   | -         |
| Other                                                          |                                              | 222       | (222)                       | -         |
| Equity attributable to the owners of the parent                |                                              | 1 533 369 | (222)                       | 1 320 926 |
| Equity attributable to non-controlling interests               | d                                            | -         | -                           | -         |
| Total equity                                                   |                                              | 1 533 369 | (222)                       | 1 320 926 |

Further details regarding the development of IFRS equity are disclosed in the Separate Statement of Changes in Equity.



The following tables show intangible assets and amount of deduction of regulatory own funds:

| 2017<br>EUR ths.                                     | Own funds<br>disclosure table -<br>reference | Balance sheet | Regulatory adj-<br>ustments | Own funds |
|------------------------------------------------------|----------------------------------------------|---------------|-----------------------------|-----------|
|                                                      |                                              |               |                             |           |
| Intangible assets                                    | e                                            | 55 457        | -                           | 55 457    |
| deductible from CET1 acc. to transitional provisions |                                              | -             | -                           | -         |
| deductible from AT1 acc. to transitional provisions  |                                              | -             | -                           | -         |
| Intangible assets                                    | e                                            | 55 457        | -                           | 55 457    |

| 2016<br>EUR ths.                                     | Own funds<br>disclosure table -<br>reference | Balance sheet | Regulatory adj-<br>ustments | Own funds |
|------------------------------------------------------|----------------------------------------------|---------------|-----------------------------|-----------|
|                                                      |                                              |               |                             |           |
| Intangible assets                                    | e                                            | 71 955        | -                           | 71 955    |
| deductible from CET1 acc. to transitional provisions |                                              | -             | -                           | -         |
| deductible from AT1 acc. to transitional provisions  |                                              | -             | -                           | -         |
| Intangible assets                                    | e                                            | 71 955        | -                           | 71 955    |

Details regarding the development of intangible assets are disclosed under "Intangible assets" (see note 21).

The following tables show deferred taxes:

| 2017<br>EUR ths.                                                                                                                    | Own funds<br>disclosure table -<br>reference | Balance sheet | Regulatory adj-<br>ustments | Own funds |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------|-----------------------------|-----------|
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities |                                              | 777           | -                           | 777       |
| Related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions              | f                                            | -             | -                           | -         |
| Related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions           |                                              | -             | -                           | -         |
| Deferred tax assets that rely on future profitability and arise from temporary differences                                          |                                              | 32 982        | -                           | 32 982    |
| Deferred tax assets                                                                                                                 |                                              | 33 758        | -                           | 33 758    |

| 2016<br>EUR ths.                                                                                                                    | Own funds<br>disclosure table -<br>reference | Balance sheet | Regulatory adj-<br>ustments | Own funds |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------|-----------------------------|-----------|
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities |                                              | 1 726         | -                           | 1 726     |
| Related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions              | f                                            | -             | -                           | -         |
| Related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions           |                                              | -             | -                           | -         |
| Deferred tax assets that rely on future profitability and arise from temporary differences                                          |                                              | 32 440        | -                           | 32 440    |
| Deferred tax assets                                                                                                                 |                                              | 34 166        | -                           | 34 166    |

Based on the threshold definition according to Article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for the Bank at the year end 2017. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250 % and considered within the credit risk.

Details regarding deferred tax assets are disclosed under "Tax assets and liabilities" (see note 22).

The following tables show subordinated liabilities:

| 2017<br>EUR ths.                                                                                                        | Own funds<br>disclosure table -<br>reference | Balance sheet | Regulatory adj-<br>ustments | Own funds |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------|-----------------------------|-----------|
| Subordinated issues and deposits and supplementary capital                                                              |                                              | 77 446        | (39 569)                    | 37 877    |
| Tier 2 capital instruments (including related share premium) issued by the parent company                               | k                                            | 77 446        | (39 569)                    | 37 877    |
| Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party | l                                            | -             | -                           | -         |
| instruments issued by subsidiaries                                                                                      | m                                            | -             | -                           | -         |
| Hybrid issues                                                                                                           | i                                            | -             | -                           | -         |
| Subordinated liabilities                                                                                                |                                              | 77 446        | (39 569)                    | 37 877    |

| 2016<br>EUR ths.                                                                                                        | Own funds<br>disclosure table -<br>reference | Balance sheet | Regulatory adj-<br>ustments | Own funds |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------|-----------------------------|-----------|
| Subordinated issues and deposits and supplementary capital                                                              |                                              | 74 785        | (26 720)                    | 48 065    |
| Tier 2 capital instruments (including related share premium) issued by the parent company                               | k                                            | 74 785        | (26 720)                    | 48 065    |
| Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party | l                                            | -             | -                           | -         |
| instruments issued by subsidiaries                                                                                      | m                                            | -             | -                           | -         |
| Hybrid issues                                                                                                           | i                                            | -             | -                           | -         |
| Subordinated liabilities                                                                                                |                                              | 74 785        | (26 720)                    | 48 065    |

Details regarding subordinated liabilities are disclosed under "Financial liabilities measured at amortised costs" (see note 24).

The following table shows own funds development between the start and the end of the period:

| EUR ths.                                          | 2016             | 2017             |
|---------------------------------------------------|------------------|------------------|
| <b>CET1 at the beginning of the period</b>        | <b>1 028 685</b> | <b>1 045 335</b> |
| Changes in retained earnings                      | 16 363           | 10 026           |
| Changes in accumulated other comprehensive income | 24 683           | 11 316           |
| Changes in minority interest                      | -                | -                |
| Changes in prudential filters                     | 945              | 523              |
| Changes in regulatory deductions                  | 13 290           | 17 448           |
| Goodwill                                          | -                | -                |
| Other intangibles                                 | 15 016           | 16 499           |
| Other                                             | (38 632)         | 18 162           |
| <b>CET1 at the end of the period</b>              | <b>1 045 335</b> | <b>1 102 809</b> |
| <b>Additional Tier 1 development</b>              |                  |                  |
| <b>AT1 at the beginning of the period</b>         | <b>150 000</b>   | <b>150 000</b>   |
| Net increase / decrease in AT1                    | -                | -                |
| Changes in regulatory deduction                   | -                | -                |
| Other                                             | -                | -                |
| <b>AT1 at the end of the period</b>               | <b>150 000</b>   | <b>150 000</b>   |
| <b>Tier 2 development</b>                         |                  |                  |
| <b>T2 at the beginning of the period</b>          | <b>91 047</b>    | <b>75 189</b>    |
| Net decrease in T2                                | (26 951)         | (10 188)         |
| Changes in regulatory deduction                   | -                | -                |
| IRB Excess and SA credit risk adjustments         | 11 093           | 5 265            |
| <b>T2 at the end of the period</b>                | <b>75 189</b>    | <b>70 266</b>    |
| <b>Total own funds</b>                            | <b>1 270 523</b> | <b>1 323 075</b> |

### Transitional provisions

The transitional Provisions are not applied by the Bank.

### Own funds template

Disclosure requirements: Art. 437 (1) (d) (e) CRR

The Bank does not consider Art. 437 (1) (f) CRR for the calculation of own funds.

The table below presents the composition of the regulatory capital based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. There are no transitional provisions that would affect the calculation of the own funds. The table is presenting own funds according to Basel 3 fully loaded regime.

The following table shows Own funds disclosure template according to Article 5 in Commission implementing regulation (EU) No 1423/2013:

| EUR ths. | Regulation (EU)<br>No 575/2013<br>Article reference | Reference to<br>reconciliation<br>tables | 2016 | 2017 |
|----------|-----------------------------------------------------|------------------------------------------|------|------|
|----------|-----------------------------------------------------|------------------------------------------|------|------|

#### Common Equity Tier 1 (CET1) capital: instruments and reserves

|    |                                                                                                                                               |                                     |   |                  |                  |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---|------------------|------------------|
| 1  | Common equity tier 1 (CET1) capital: instruments and reserves                                                                                 | 26 (1), 27, 28, 29, EBA list 26 (3) | a | 212 000          | 212 000          |
|    | thereof: ordinary shares                                                                                                                      | EBA list 26 (3)                     | a | 212 000          | 212 000          |
| 2  | Retained earnings                                                                                                                             | 26 (1) (c)                          | b | 875 988          | 886 015          |
| 3  | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 26 (1)                              |   | 82 938           | 94 254           |
| 3a | Fund for general banking risk                                                                                                                 | 26 (1) (f)                          | c | -                | -                |
| 4  | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1               | 486 (2)                             |   | -                | -                |
|    | Public sector capital injections grandfathered until Jan 18                                                                                   | 483 (2)                             |   | -                | -                |
| 5  | Minority interests (amount allowed in consolidated CET1)                                                                                      | 84, 479, 480                        | d | -                | -                |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend                                                              | 26 (2)                              |   | -                | -                |
| 6  | <b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>                                                                      |                                     |   | <b>1 170 926</b> | <b>1 192 269</b> |

#### Common Equity Tier 1 (CET1) capital before regulatory adjustments

|    |                                                                                                                                                                                                                                                                         |                                                                                          |   |          |          |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---|----------|----------|
| 7  | Additional value adjustments (negative amount)                                                                                                                                                                                                                          | 34, 105                                                                                  |   | (4 428)  | (3 394)  |
| 8  | Intangible assets (net of related tax liability) (negative amount)                                                                                                                                                                                                      | 36 (1) (b), 37, 472 (4)                                                                  | e | (71 955) | (55 457) |
| 9  | Empty Set in the EU                                                                                                                                                                                                                                                     |                                                                                          |   | -        | -        |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)                                                                | 36 (1) (c), 38, 472 (5)                                                                  | f | (1 726)  | (777)    |
| 11 | Fair value reserves related to gains or losses on cash flow hedges                                                                                                                                                                                                      | 33 (a)                                                                                   | g | -        | -        |
| 12 | Negative amounts resulting from the calculation of expected loss amounts                                                                                                                                                                                                | 36 (1) (d), 40, 159, 472 (6)                                                             |   | -        | -        |
| 13 | Any increase in equity that results from securitised assets (negative amount)                                                                                                                                                                                           | 32 (1)                                                                                   |   | -        | -        |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing                                                                                                                                                                       | 33 (b)                                                                                   |   | 752      | 241      |
| 15 | Defined-benefit pension fund assets (negative amount)                                                                                                                                                                                                                   | 36 (1) (e), 41, 472 (7)                                                                  |   | -        | -        |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount)                                                                                                                                                                                | 36 (1) (f), 42, 472 (8)                                                                  |   | -        | -        |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                                              | 36 (1) (g), 44, 472 (9)                                                                  |   | -        | -        |
| 18 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)  | 36 ods. 1 písm. h), 43, 45, 46, 49 ods. 2 a 3, 79, 472 ods. 10                           |   | -        | -        |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 36 ods. 1 písm. i), 43, 45, 47, 48 ods. 1 písm. b), 49 ods. 1 až 3, 79, 470, 472 ods. 11 |   | -        | -        |
| 20 | Empty Set in the EU                                                                                                                                                                                                                                                     |                                                                                          |   | -        | -        |

| continued<br>EUR ths. |                                                                                                                                                                                     | Regulation (EU)<br>No 575/2013<br>Article reference  | Reference to<br>reconcilia-<br>tion<br>tables | 2016             | 2017             |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------|------------------|------------------|
| 20a                   | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative                                                    | 36 (1) (k)                                           |                                               | -                | -                |
| 20b                   | of which: qualifying holdings outside the financial sector (negative amount)                                                                                                        | 36 (1) (k) (i), 89 to 91                             |                                               | -                | -                |
| 20c                   | of which: securitisation positions (negative amount)                                                                                                                                | 36 (1) (k) (ii)<br>243 (1) (b)<br>244 (1) (b)<br>258 |                                               | -                | -                |
| 20d                   | of which: free deliveries (negative amount)                                                                                                                                         | 36 (1) (k) (iii), 379 (3)                            |                                               | -                | -                |
| 21                    | Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)         | 36 (1) (c), 38, 48 (1) (a),<br>470, 472 (5)          |                                               | -                | -                |
| 22                    | Amount exceeding the 15% threshold (negative amount)                                                                                                                                | 48 (1)                                               |                                               | -                | -                |
| 23                    | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | 36 (1) (i), 48 (1) (b), 470,<br>472 (11)             |                                               | -                | -                |
| 24                    | Empty Set in the EU                                                                                                                                                                 |                                                      |                                               | -                | -                |
| 25                    | of which: deferred tax assets arising from temporary differences                                                                                                                    | 36 (1) (c), 38, 48 (1) (a),<br>470, 472 (5)          |                                               | -                | -                |
| 25a                   | Losses for the current financial year (negative amount)                                                                                                                             | 36 (1) (a), 472 (3)                                  |                                               | -                | -                |
| 25b                   | Foreseeable tax charges relating to CET1 items (negative amount)                                                                                                                    | 36 (1) (l)                                           |                                               | -                | -                |
| 26                    | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment                                                                           |                                                      |                                               | -                | -                |
| 26a                   | Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468                                                                                     |                                                      |                                               | -                | -                |
|                       | unrealised loss                                                                                                                                                                     | 467                                                  |                                               | -                | -                |
|                       | unrealised gain                                                                                                                                                                     | 468                                                  | h                                             | -                | -                |
| 26b                   | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR                                               | 481                                                  |                                               | -                | -                |
| 27                    | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)                                                                                          | 36 (1) (j)                                           |                                               | -                | -                |
|                       | CET1 other deductions                                                                                                                                                               |                                                      |                                               | (48 235)         | (30 073)         |
| <b>28</b>             | <b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>                                                                                                                  |                                                      |                                               | <b>(125 592)</b> | <b>(89 459)</b>  |
| <b>29</b>             | <b>Common Equity Tier 1 (CET1) capital</b>                                                                                                                                          |                                                      |                                               | <b>1 045 335</b> | <b>1 102 809</b> |

#### Additional Tier 1 (AT1) capital: instruments

|           |                                                                                                                                                                     |             |   |                |                |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---|----------------|----------------|
| 30        | Capital instruments and the related share premium accounts                                                                                                          | 51, 52      |   | 150 000        | 150 000        |
| 31        | of which: classified as equity under applicable accounting standards                                                                                                |             |   | 150 000        | 150 000        |
| 32        | of which: classified as liabilities under applicable accounting standards                                                                                           |             |   | -              | -              |
| 33        | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1                                      | 486 (3)     | i | -              | -              |
|           | Public sector capital injections grandfathered until 1 January 2018                                                                                                 | 483 (3)     |   | -              | -              |
| 34        | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | 85, 86, 480 |   | -              | -              |
| 35        | of which: instruments issued by subsidiaries subject to phase out                                                                                                   | 486 (3)     |   | -              | -              |
| <b>36</b> | <b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>                                                                                                |             |   | <b>150 000</b> | <b>150 000</b> |

| continued<br>EUR ths. |  | Regulation (EU)<br>No 575/2013<br>Article reference | Reference to<br>reconciliation<br>tables | 2016 | 2017 |
|-----------------------|--|-----------------------------------------------------|------------------------------------------|------|------|
|-----------------------|--|-----------------------------------------------------|------------------------------------------|------|------|

### Additional Tier 1 (AT1) capital: regulatory adjustments

|     |                                                                                                                                                                                                                                                             |                                                                                    |                  |                  |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------|------------------|
| 37  | Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)                                                                                                                                                                     | 52 (1) (b), 56 (a), 57, 475 (2)                                                    | -                | -                |
| 38  | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                                   | 56 (b), 58, 475 (3)                                                                | -                | -                |
| 39  | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)          | 56 (c), 59, 60, 79, 475 (4)                                                        | -                | -                |
| 40  | Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount) | 56 (d), 59, 79, 475 (4)                                                            | -                | -                |
| 41  | Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)                             |                                                                                    | -                | -                |
| 41a | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013                                                   | 472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) | -                | -                |
|     | Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc                                                                                                                   |                                                                                    | -                | -                |
| 41b | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013                                                                 | 477, 477 (3), 477 (4) (a)                                                          | -                | -                |
|     | Of which items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc                                                         |                                                                                    | -                | -                |
| 41c | Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR                                                                                                                         | 467, 468, 481                                                                      | -                | -                |
|     | Of which: ... possible filter for unrealised losses                                                                                                                                                                                                         | 467                                                                                | -                | -                |
|     | Of which: ... possible filter for unrealised gains                                                                                                                                                                                                          | 468                                                                                | -                | -                |
|     | Of which: ...                                                                                                                                                                                                                                               | 481                                                                                | -                | -                |
| 42  | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)                                                                                                                                                                    | 56 (e)                                                                             | -                | -                |
| 43  | <b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>                                                                                                                                                                                      |                                                                                    | -                | -                |
| 44  | <b>Additional Tier 1 (AT1) capital</b>                                                                                                                                                                                                                      |                                                                                    | <b>150 000</b>   | <b>150 000</b>   |
| 45  | <b>Tier 1 capital (T1 = CET1 + AT1)</b>                                                                                                                                                                                                                     |                                                                                    | <b>1 195 335</b> | <b>1 252 809</b> |



| continued<br>EUR ths. |  | Regulation (EU)<br>No 575/2013<br>Article reference | Reference to<br>reconciliation<br>tables | 2016 | 2017 |
|-----------------------|--|-----------------------------------------------------|------------------------------------------|------|------|
|-----------------------|--|-----------------------------------------------------|------------------------------------------|------|------|

## Tier 2 (T2) capital: Instruments and provisions

|           |                                                                                                                                                                                                       |             |   |               |               |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---|---------------|---------------|
| 46        | Capital instruments and the related share premium accounts                                                                                                                                            | 62, 63      | k | 48 065        | 37 877        |
| 47        | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2                                                                         | 486 (4)     |   | -             | -             |
|           | Public sector capital injections grandfathered until 1 January 2018                                                                                                                                   | 483 (4)     |   | -             | -             |
| 48        | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 87, 88, 480 | l | -             | -             |
| 49        | of which: instruments issued by subsidiaries subject to phase out                                                                                                                                     | 486 (4)     | m | -             | -             |
| 50        | Credit risk adjustments                                                                                                                                                                               | 62 c) & (d) |   | 27 124        | 32 389        |
| <b>51</b> | <b>Tier 2 (T2) capital before regulatory adjustments</b>                                                                                                                                              |             |   | <b>75 189</b> | <b>70 266</b> |

## Tier 2 (T2) capital: regulatory adjustments

|     |                                                                                                                                                                                                                                                                           |                                                                                    |  |   |   |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|--|---|---|
| 52  | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)                                                                                                                                                             | 63 (b) (i), 66 (a), 67, 477 (2)                                                    |  | - | - |
| 53  | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)                           | 66 (b), 68, 477 (3)                                                                |  | - | - |
| 54  | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | 66 (c), 69, 70, 79, 477 (4)                                                        |  | - | - |
| 54a | Of which new holdings not subject to transitional arrangements                                                                                                                                                                                                            |                                                                                    |  | - | - |
| 54b | Of which holdings existing before 1 January 2013 and subject to transitional arrangements                                                                                                                                                                                 |                                                                                    |  | - | - |
| 55  | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)                        | 66 (d), 69, 79, 477 (4)                                                            |  | - | - |
| 56  | Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)                                                     |                                                                                    |  | - | - |
| 56a | Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013                                                                                | 472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) |  | - | - |
|     | Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc                                                                                                                                 |                                                                                    |  | - | - |
| 56b | Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013                                                                               | 475, 475 (2) (a), 475 (3), 475 (4) (a)                                             |  | - | - |
|     | Of which items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc                                                                      |                                                                                    |  | - | - |

| continued<br>EUR ths. |                                                                                                                         | Regulation (EU)<br>No 575/2013<br>Article reference | Reference to<br>reconciliation<br>tables | 2016             | 2017             |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|------------------------------------------|------------------|------------------|
| 56c                   | Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR | 467, 468, 481                                       |                                          | -                | -                |
|                       | Of which: ... possible filter for unrealised losses                                                                     | 467                                                 |                                          | -                | -                |
|                       | Of which: ... possible filter for unrealised gains                                                                      | 468                                                 |                                          | -                | -                |
|                       | Of which: ...                                                                                                           | 481                                                 |                                          | -                | -                |
| <b>57</b>             | <b>Total regulatory adjustments to Tier 2 (T2) capital</b>                                                              |                                                     |                                          | -                | -                |
| <b>58</b>             | <b>Tier 2 (T2) capital</b>                                                                                              |                                                     |                                          | <b>75 189</b>    | <b>70 266</b>    |
| <b>59</b>             | <b>Total capital (TC = T1 + T2)</b>                                                                                     |                                                     |                                          | <b>1 270 523</b> | <b>1 323 075</b> |

### Risk-weighted assets

|           |                                                                                                                                                                                                                                                                                                                                                                            |                                                       |  |                  |                  |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--|------------------|------------------|
| 59a       | Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)                                                                                                                                                                          |                                                       |  | -                | -                |
|           | Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)                                                                                                                | 472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b) |  | -                | -                |
|           | Of which: ... items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)                                                                               | 475, 475 (2) (b), 475 (2) (c), 475 (4) (b)            |  | -                | -                |
|           | Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.) | 477, 477 (2) (b), 477 (2) (c), 477 (4) (b)            |  | -                | -                |
| <b>60</b> | <b>Total risk-weighted assets</b>                                                                                                                                                                                                                                                                                                                                          |                                                       |  | <b>5 946 490</b> | <b>7 113 001</b> |

### Capital ratios and buffers

|     |                                                                                                                                                                                                                                                                                                                              |                   |  |         |         |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--|---------|---------|
| 61  | Common Equity Tier 1 (as a percentage of risk exposure amount)                                                                                                                                                                                                                                                               | 92 (2) (a), 465   |  | 18%     | 16%     |
| 62  | Tier 1 (as a percentage of total risk exposure amount)                                                                                                                                                                                                                                                                       | 92 (2) (b), 465   |  | 20%     | 18%     |
| 63  | total capital (as a percentage of total risk exposure amount)                                                                                                                                                                                                                                                                | 92 (2) (c)        |  | 21%     | 19%     |
| 64  | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | CRD 128, 129, 130 |  | 208 127 | 355 337 |
| 65  | of which: capital conservation buffer requirement                                                                                                                                                                                                                                                                            |                   |  | 148 662 | 177 825 |
| 66  | of which: countercyclical buffer requirement                                                                                                                                                                                                                                                                                 |                   |  | -       | 35 252  |
| 67  | of which: systemic risk buffer requirement                                                                                                                                                                                                                                                                                   |                   |  | -       | 71 130  |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer                                                                                                                                                                                                       | CRD 131           |  | 59 465  | 71 130  |
| 68  | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)                                                                                                                                                                                                                                     | CRD 128           |  | 13%     | 11%     |
| 69  | [non-relevant in EU regulation]                                                                                                                                                                                                                                                                                              |                   |  | -       | -       |
| 70  | [non-relevant in EU regulation]                                                                                                                                                                                                                                                                                              |                   |  | -       | -       |
| 71  | [non-relevant in EU regulation]                                                                                                                                                                                                                                                                                              |                   |  | -       | -       |

| continued<br>EUR ths. |  | Regulation (EU)<br>No 575/2013<br>Article reference | Reference to<br>reconciliation<br>tables | 2016 | 2017 |
|-----------------------|--|-----------------------------------------------------|------------------------------------------|------|------|
|-----------------------|--|-----------------------------------------------------|------------------------------------------|------|------|

### Capital ratios and buffers

|    |                                                                                                                                                                                                                                            |                                                                               |  |        |        |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--|--------|--------|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)                   | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4) |  | 678    | 3 059  |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 36 (1) (i), 45, 48, 470, 472 (11)                                             |  | 23 038 | 23 038 |
| 74 | Empty Set in the EU                                                                                                                                                                                                                        |                                                                               |  | -      | -      |
| 75 | Deferred tax assets arising from temporary differences (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)                                                                         | 36 (1) (c), 38, 48, 470, 472 (5)                                              |  | 32 440 | 32 982 |

### Applicable caps on the inclusion of provisions in Tier 2

|    |                                                                                                                                                |    |  |        |        |
|----|------------------------------------------------------------------------------------------------------------------------------------------------|----|--|--------|--------|
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)          | 62 |  | -      | -      |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach                                                                  | 62 |  | -      | -      |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | 62 |  | 34 600 | 68 165 |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach                                                       | 62 |  | 27 124 | 32 389 |

### Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)

|    |                                                                                         |                        |  |   |   |
|----|-----------------------------------------------------------------------------------------|------------------------|--|---|---|
| 80 | Current cap on CET1 instruments subject to phase-out arrangements                       | 484 (3), 486 (2) & (5) |  | - | - |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | 484 (3), 486 (2) & (5) |  | - | - |
| 82 | Current cap on AT1 instruments subject to phase out arrangements                        | 484 (4), 486 (3) & (5) |  | - | - |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)  | 484 (4), 486 (3) & (5) |  | - | - |
| 84 | Current cap on T2 instruments subject to phase out arrangements                         | 484 (5), 486 (4) & (5) |  | - | - |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)   | 484 (5), 486 (4) & (5) |  | - | - |

## 39 Events after the reporting period

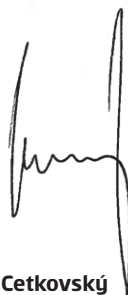
Since 31 December 2017 up to the date of issue of these separate financial statements there were no events identified that would require adjustments or disclosure.

These separate financial statements were signed and authorised for issue by the Board of Directors of the Bank on 13 February 2018.



**Ing. Peter Krutil**

Chairman of the Board of Directors and  
Chief Executive Officer



**Ing. Pavel Cetkovský**

Member of the Board of Directors and  
Deputy of Chief Executive Officer

