Privatbanka, a.s.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

AND

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Privatbanka, a.s.

2016
ANNUAL REPORT

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Prepared in accordance with International Financial
Reporting Standards, as adopted by the European Union
For the year ended 31 December 2016
and Independent Auditor's Report

INTRODUCTION

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

1. IDENTIFICATION OF THE REPORTING ENTITY

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

2. SCOPE OF BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. PUBLICATION OF THE ANNUAL REPORT

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

4. CONSOLIDATED FINANCIAL STATEMENTS

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

Pursuant to Article 22 (12) of Act 431/2002 Coll. on Accounting, as amended the Bank did not prepare consolidated financial statements for the year ended 31 December 2016, since the subsidiary Privatfin, s.r.o., with its registered seat at Einsteinova 25, 851 01 Bratislava, Company ID: 36 037 869, does not have a significant impact on the Bank's consolidation group. The judgment on the financial position, expenses, revenues and results of operations of the Bank's consolidation group has not been significantly affected by preparing only the Bank's separate financial statements.

5. AUDIT OF FINANCIAL STATEMENTS

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

The Bank's financial statements as at 31 December 2016 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, were audited by Deloitte Audit s.r.o., with its registered seat at Digital Park II, Einsteinova 23, 851 01 Bratislava, Licence SKAu No. 014 on 13 March 2017.

6. REPORT ON FINANCIAL POSITION

a) INFORMATION ABOUT THE BANK'S DEVELOPMENT, PRESENT CONDITIONS OF THE BANK AND SIGNIFICANT RISKS AND UNCERTAINTIES THE BANK FACED IN THE 2016 PERIOD

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

As at 31 December 2016, total assets amounted to EUR 618 680 thousand. Total assets increased by 4% compared to the previous year-end.

The Bank reported an after-tax profit of EUR 9 111 thousand representing an increase of 74% year-on-year. At the end of 2016, operating profit amounted to EUR 10 655 thousand, which was at a comparable level to the previous year.

Comparison of Financial Indicators

EUR '000	31.12.2016	31.12.2015	Change	Change in %
Total assets	618 680	595 266	23 414	4%
Cash and balances with central banks	37 698	30 428	7 270	24%
Loans and advances to banks	11 036	9 733	1 303	13%
Loans and advances to customers	289 178	248 414	40 764	16%
Securities	276 666	303 927	(27 261)	(9%)
Due to banks	96 212	96 198	14	0%
Deposits from customers	439 932	417 202	22 730	5%
Debt securities issued	6 782	16 382	(9 600)	(60%)
Share capital	25 121	25 121	-	0%
Equity	68 526	59 040	9 486	16%
Operating profit	10 655	10 702	(47)	0%
Profit after tax	9 111	5 234	3 877	74%
Regulatory capital	59 101	53 522	5 579	10%
Adequacy of regulatory capital	12,82%	13,37%	(0,55%)	

Net interest income remains the largest source of the Bank's profit in 2016, although it decreased by EUR 2 608 thousand to EUR 11 569 thousand year-on-year. The decrease of net interest income was caused by continuing low market interest rates, which resulted in a decrease of interest rates in the loan and securities portfolios.

As regards liabilities, interest rates on primary sources decreased.

Net fee and commission income of EUR 9 835 thousand significantly contributed to the Bank's profit.

Net income from security trading and net income from foreign currency and derivative transactions substantially contributed to the Bank's total profit, which amounted to EUR 1 116 thousand as at the year-end.

At the end of 2016, the amount of provided loans was EUR 289 178 thousand, an increase of 16% year-on-year. At the end of 2016, the value of the securities portfolio was EUR 276 666 thousand.

As regards liabilities, deposits from customers increased by 5% year-on-year and totalled EUR 439 932 thousand as at 31 December 2016.

At the end of 2016, operating expenses amounted to EUR 11 866 thousand, ie year-on-year growth of 1%. Out of operating expenses, general operating expenses amount to EUR 11 492 thousand (year-on-year growth of 3%) and the depreciation and amortisation of tangible and intangible assets to EUR 374 thousand (year-on-year decrease of 27%).

As at 31 December 2016, adequacy of regulatory capital amounted to 12.82% and decreased by 0.55% in 2016.

The Bank has no impact on the environment. The Bank's activities in 2016 had no principal impact on employment in individual regions of the Slovak Republic.

The Bank is not aware of any risks or uncertainties that would have a significant impact on its activities in 2016.

Further details regarding the Bank's results for 2016 are disclosed in the financial statements and notes thereto.

b) INFORMATION ABOUT EVENTS OF PARTICULAR IMPORTANCE THAT OCCURRED AFTER THE END OF THE REPORTING PERIOD AS AT 31 DECEMBER 2016
(Article 20 (1) (b) of Act No. 431/2002 Coll. on Accounting, as amended)

As at the Annual Report date, there were no significant events that occurred after the end of the reporting period as at 31 December 2016 and that would require a significant adjustment to the data or information disclosed in the financial statements as at 31 December 2016.

c) INFORMATION ABOUT THE BANK'S ANTICIPATED ECONOMIC AND FINANCIAL POSITION IN 2017
(Article 77 (2) (d) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)
(Article 20 (1) (c) of Act No. 431/2002 Coll. on Accounting, as amended)

In 2016, the Bank posted a profit/(loss) in line with the plan with respect to most indicators, and the post-tax profit significantly exceeded the plan.

In 2017, private banking and directly-related activities (primarily asset management and treasury) remain the principal area for the development of the Bank's activities. In addition to private banking, the Bank will continue to focus on corporate banking, particularly the provision of loans to corporate clients.

In private banking, the Bank's goal for 2017 is to continue to increase the volume of clients' assets managed by the Bank. Qualitatively, the aim of the Bank is to provide private clients with highly-individual and flexible services, especially as regards asset management and other related areas. A significant part of the product range will continue to include the issuance of corporate promissory notes and corporate bonds to be arranged by the Bank primarily for shareholder group entities. In addition to securities sold to clients, the Bank will focus on the active management of securities in its portfolios. This is an important role as securities constitute a significant portion of the Bank's assets.

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

In 2017, the aim of the Bank is to maintain or partially expand the product range for common clients, to which it provides services through a network of regional investment centres and branches. Funds from the general public represent a substantial share of the funds base of the Bank's balance sheet business. In 2017, the Bank plans to continue the sale of public issues of corporate bonds for retail clients. In 2017, the Bank plans no major changes in its regional network.

In aggregate terms, the Bank plans to report a profit/(loss) after tax of EUR 6.3 million and total assets of EUR 621 million at the end of 2017.

The Bank will have no impact on the environment. In 2017, its activities will not substantially impact employment in individual regions of the Slovak Republic.

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

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

In 2016, the Bank records no costs of research and development.

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

The Bank does not carry out the said transactions.

f) INFORMATION ABOUT THE PROPOSED 2016 PROFIT DISTRIBUTION
(Article 20 (1) (f) of Act No. 431/2002 Coll. on Accounting, as amended)

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

g) INFORMATION ABOUT THE 2015 PROFIT DISTRIBUTION
(Article 77 (2) (c) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

EUR '000	2015
Allotment to the legal reserve fund	332
Allotment to retained earnings	4,902
Profit for the preceding reporting period after tax	**5,234**

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

No special regulations apply to the Bank.

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

The Bank does not have an organisational unit abroad.

j) SUMMARY OF RECEIVED BANK LOANS AND OTHER LOANS

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

EUR '000	2016
Loan received from the ECB	76,189
Total due to banks	**76,189**

As at 31 December 2016, loans received from the ECB comprise a loan of EUR 46 160 thousand due in September 2018, and a loan of EUR 30 000 thousand due in June 2020. These loans are secured by securities at a fair value of EUR 88 527 thousand (31 December 2015: EUR 76 185 thousand), which are disclosed in the Statement of Financial Position as “Available-for-sale securities” and “Securities at fair value through profit or loss”, and securities at amortised cost of EUR 35 992 thousand (31 December 2015: EUR 76 837 thousand), which are disclosed in the Statement of Financial Position as “Held-to-maturity securities”.

k) SUMMARY OF ISSUED AND OUTSTANDING SECURITIES

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

ISIN	Type	Form	Nature	Number (pcs)	Face Value (EUR '000, CM)	Description of Rights
SK1110001619	Share	Registered	Book-entry security	756 874	0,03319 EUR	Section 6l)
SK4120010174	Bond	Bearer	Book-entry security	3 139	1,00000 EUR	Section 6m)
SK4120010679	Bond	Bearer	Book-entry security	3 512	1,00000 EUR	Section 6n)
-	Promissory note	Registered	Paper security	1	433 PLN	Common rights resulting from promissory notes

l) DESCRIPTION OF RIGHTS ATTACHED TO SHARES ISIN SK1110001619

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

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

m) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120010174
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

On 21 August 2014, the Bank issued bonds with a face value of EUR 1 000 each in the total issued amount of EUR 5 000 thousand. The yield from the bonds is paid out semi-annually as at 21 February and 21 August of the current year and bears a fixed interest rate of 2% p.a. from the face value of bonds. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 21 August 2017. The above bonds are issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

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

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

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

The Bank issued no convertible bonds.

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

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

As at 31 December 2016, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and nine regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. As at 31 December 2016, the Bank also carried out banking activities in the Czech Republic based on the right to the free provision of cross-border banking services without establishing a branch in line with Directive No. 2006/48/EC of the European Parliament and of the Council dated 14 June 2006 on establishing and carrying out activities of credit institutions.

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

The Bank's turnover was EUR 30 709 thousand in 2016.

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

The number of full-time employees was 165 as at 31 December 2016.

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

The Bank's profit before tax amounted to EUR 11 633 thousand as at 31 December 2016.

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

The Bank's income tax expenses amounted to EUR 2 522 thousand as at 31 December 2016.

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

The Bank received no subsidies from public funds in 2016.

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

The return on assets (ROA) amounted to 1.47% in 2016.

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

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

The Bank's primary objective as regards risk management is to ensure the adequacy of individual risk exposures in relation to the amount of the Bank's own funds, the diversification of risk for all risk factors and the maintenance of an acceptable liquidity position. In addition to meeting legislative requirements and banking regulatory parameters, the Bank has developed an internal system of procedures, limits and reports that is sufficient to eliminate potential risks to which the Bank is exposed during its business activities. In terms of risk exposures, the Bank is conservative and it does not engage in speculative transactions.

The only risk factor that the Bank hedges using derivatives is the Banking Book's interest rate risk. The interest rate risk exposure of this portfolio, as well as of the Trading Book, is monitored daily using interest rate sensitivity and it is reported regularly to the relevant authorities. The Bank used exclusively interest rate swaps as standard to hedge this risk exposure resulting from the different duration of assets and liabilities.

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

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

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

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

The Bank's liquidity position is monitored and reported to the Bank's top management on a regular basis. The Bank has defined qualitative and quantitative liquidity limits, whose use is monitored and reported on a daily or monthly basis.

APPENDIX

Privatbanka, a.s.

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

Year Ended 31 December 2016
and Independent Auditor's Report

Privatbanka

Financial statements for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

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Privatbanka, a.s.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

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

Key Audit Matters

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

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

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

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

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

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

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

Appointment and Approval of the Auditor

We were appointed as the statutory auditor by the Bank's statutory body based on our approval by the Bank's General Meeting held on 24 March 2016. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 9 years.

Consistency with the Additional Report to the Audit Committee

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

Non-Audit Services

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

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

Bratislava, 13 March 2017

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

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

Statement of Financial Position as at 31 December 2016
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

	Note	2016 EUR '000	2015 EUR '000
Assets			
Cash and balances with central banks	4.	37 698	30 428
Loans and advances to banks	5.	11 036	9 733
Loans and advances to customers	6.	289 178	248 414
Available-for-sale securities	8.	198 457	176 186
Securities at fair value through profit or loss	9.	-	273
Held-to-maturity securities	10.	78 209	127 468
Investments in subsidiaries	11.	7	7
Tangible and intangible assets	12.	1 177	1 175
Tax prepayments	13.	118	90
Other assets	14.	2 800	1 492
Total assets		**618 680**	**595 266**
Liabilities and equity			
Due to banks	15.	96 212	96 198
Deposits from customers	16.	439 932	417 202
Debt securities issued	17.	6 782	16 832
Deferred tax liability	18.	682	622
Provisions for liabilities		331	331
Other liabilities	19.	6 215	5 041
Total liabilities		**550 154**	**536 226**
Equity			
Share capital	20.	25 121	25 121
Capital reserves and funds from profit	20.	5 024	4 692
Revaluation reserves on available-for-sale securities, including deferred tax	20.	2 618	2 300
Revaluation reserves on the translation of hedging derivative instruments, including deferred tax	20.	(93)	(150)
Retained earnings		35 856	27 077
Total equity		**68 526**	**59 040**
Total liabilities and equity		**618 680**	**595 266**

The notes on pages 12 to 76 form an integral part of these financial statements.

Privatbanka

Income Statement for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

	Note	2016 EUR '000	2015 EUR '000
Interest income and similar income	26.	18 987	21 636
Interest expense and similar expense	27.	(7 418)	(7 459)
Net interest income		**11 569**	**14 177**
Fee and commission income	28.	10 472	7 828
Fee and commission expense	29.	(637)	(643)
Net fee and commission income		**9 835**	**7 185**
Trading profit	30.	1 116	1 042
Other income		1	18
Operating income		**22 521**	**22 422**
General operating expenses	31.	(11 492)	(11 207)
Depreciation and amortisation of TA and IA	12.	(374)	(513)
Operating expense		**(11 866)**	**(11 720)**
Operating profit		**10 655**	**10 702**
(Creation)/release of impairment losses, write-off and assignment of receivables	32.	973	(2 865)
Net profit/(loss) on the sale of tangible assets		5	-
(Creation)/release of provisions for liabilities		-	6
Profit before taxes		**11 633**	**7 843**
Current tax	22.	(2 527)	(2 646)
Deferred tax	22.	5	37
Net profit		**9 111**	**5 234**

The notes on pages 12 to 76 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

	Note	2016 EUR '000	2015 EUR '000
Profit after tax from the Income Statement		**9 111**	**5 234**
Remeasurement of available-for-sale securities		365	(973)
Deferred tax on available-for-sale securities		(47)	214
Remeasurement of cash flow hedging derivative instruments		75	35
Deferred tax on cash flow hedging derivative instruments		(18)	(8)
Comprehensive income		**9 486**	**4 502**

The notes on pages 12 to 76 form an integral part of these financial statements.

Statement of Changes in Shareholder's Equity
for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

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

	Share capital	Retained earnings	Capital reserves and funds from profit	Revaluation reserves on available-for-sale securities (including deferred tax)	Revaluation reserves on the translation of hedging derivative instruments, (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 1 January 2015	**25 121**	**22 320**	**4 215**	**3 059**	**(177)**	**54 538**
Additions to statutory reserve fund	-	(477)	477	-	-	-
2015 comprehensive income	-	5 234	-	(759)	27	4 502
At 31 December 2015	**25 121**	**27 077**	**4 692**	**2 300**	**(150)**	**59 040**

The notes on pages 12 to 76 form an integral part of these financial statements.

	Note	2016 EUR '000	2015 EUR '000
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	33.	12 989	8 214
(Increase)/decrease in minimum reserve deposits with the NBS		(7 901)	11 195
(Increase)/decrease in loans and advances to customers		(39 918)	(34 164)
(Increase)/decrease in securities at fair value through profit or loss		255	3 541
(Increase)/decrease in available-for-sale securities		(22 457)	28 492
(Increase)/decrease in other assets		(1 308)	(375)
Increase/(decrease) in amounts due to banks		22	(66 562)
Increase/(decrease) in deposits from customers		22 602	14 032
Increase/(decrease) in debt securities issued – promissory notes		-	(1 055)
Income tax paid		(2 556)	(3 653)
Increase/(decrease) in other liabilities		1 256	832
Net cash flows from operating activities		**(37 016)**	**(39 503)**
Cash flows from investing activities			
(Increase)/decrease in held-to-maturity securities		48 074	45 976
Purchase of tangible and intangible assets		(376)	(232)
Sale of tangible and intangible assets		5	1
Net cash flows from investment activities		**47 703**	**45 745**
Cash flow from financing activities			
Increase upon issue of long-term debt securities - bonds		334	4 662
Decrease upon maturity and redemption of long-term debt securities - bonds		(10 349)	(3 000)
Net cash flows from financing activities		**(10 015)**	**1 662**
Net increase in cash and cash equivalents		**672**	**7 904**
Cash and cash equivalents at the beginning of the year	34.	**11 764**	**3 860**
Cash and cash equivalents at the end of the year	34.	**12 436**	**11 764**

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

The notes on pages 12 to 76 form an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

XII. Services related to the underwriting of these financial instruments

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

Shareholders' structure
The shareholders' structure is as follows:

%	2016	2015
Penta Investments Ltd., Limassol	100,00	100,00
Total	**100,00**	**100,00**

The immediate consolidating entity is Penta Investments Limited, with its registered office at 47 Esplanade, JE1 0BD St. Helier, Jersey, Channel Islands.

The ultimate parent company is Penta Investments Group Limited, with its registered office at 47 Esplanade, JE1 0BD St. Helier, Jersey, Channel Islands.

The consolidated financial statements are available at Penta Investments Limited.

Investments in subsidiaries
As at 31 December 2016, the Bank had the following subsidiary:

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

Privatfin, s.r.o., with its registered office at Einsteinova 25, 851 01 Bratislava, Identification number: 36 037 869, is registered in the Commercial Register of the District Court, Bratislava I, section: Sro, No. 40865/B. The subsidiary does not perform activities in significant volumes. As at 31 December 2016, it reported a loss of EUR 1 thousand (2015: loss of EUR 3 thousand).

Geographical network
As at 31 December 2016, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and nine regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. As at 31 December 2016, the Bank also carried out banking activities in the Czech Republic based on the right to the free provision of cross-border banking services without establishing a branch in line with Directive No. 2006/48/EC of the European Parliament and of the Council dated 14 June 2006 on establishing and carrying out activities of credit institutions.

Members of the Board of Directors
The members of the Bank's Board of Directors as at 31 December 2016 are as follows:

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

Supervisory Board
The members of the Bank's Supervisory Board since 29 April 2016 are as follows:

Elected by the General Meeting:
1. Mgr. Jozef Oravkin - Chairman - Appointed on 29 April 2016
2. Ing. Marek Hvožďara - Chairman - Appointed on 27 September 2012

Elected by the employees:
3. Ing. Mgr. Milan Čerešňa - Member - Appointed on 24 August 2012

The members of the Bank's Supervisory Board until 29 April 2016 are as follows:

Elected by the General Meeting:

1. Ing. Jozef Špirko	- Chairman	- Appointed on 29 April 2011
2. Ing. Marek Hvožďara	- Vice-Chairman	- Appointed on 27 September 2012

Elected by the employees:

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

2. ACCOUNTING POLICIES

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

(2.1) Basis of presentation
The annual separate financial statements of the Bank (hereinafter the "financial statements") for 2016 and comparative data for 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The Bank does not prepare consolidated financial statements, in which the subsidiary Privatfin, s.r.o. would be included, because of its immaterial impact on the Bank's financial statements.

Standards and interpretations effective in the current period

The Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and are effective for reporting periods beginning on 1 January 2016. The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

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

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" –** Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010 – 2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012 – 2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

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

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

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

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

The Bank's management anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on its financial statements in the initial application period, except for IFRS 9 the adoption of which will have a quantifiable impact on the Bank's equity.

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

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

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

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

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

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

(2.2) Statement of compliance

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

Pursuant to Article 22 (12) of Act No. 431/2002 Coll. on Accounting as amended, the Bank does not prepare consolidated financial statements for the year ended 31 December 2016, since the subsidiary Privatfin, s.r.o. does not have a significant impact on Privatbanka's consolidated group. The judgment on the financial position, expenses, revenues and results of operations of Privatbanka's consolidated group has not been significantly affected by preparing only the Bank's separate financial statements.

On 24 March 2016, the Bank's General Meeting approved the Bank's financial statements prepared in accordance with IFRS as at 31 December 2015.

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

(2.3) Basis of preparation

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

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

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

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

The Bank has a controlling interest in the subsidiary as stated in Note 11. In these financial statements, the subsidiary is recognised at cost, taking into account losses from impairment.

(2.4) Significant accounting judgements and estimates

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

Significant areas that require judgment and estimates:

- The on-going impact of recent financial crisis on financial markets and the economic environment have resulted in material adjustments to the valuation of the Bank's assets. The management of the Bank has considered all relevant factors in making prudent and reasonable valuation estimates in the circumstances. There is also a continued increased level of uncertainty about future economic developments. These factors could result in future changes in the valuation of assets and such changes could be material.

- Provisions for liabilities are based on the management's judgments and represent the best estimate of the expenditures required to settle a liability of an uncertain timing or amount resulting from an obligation.

- The Bank regularly (on a quarterly basis) monitors the loan portfolio and performs an individual or portfolio assessment of receivables from loan transactions in order to identify loss events. Subsequently, the Bank quantifies the impact of a loss event on the recognised financial assets while taking into account estimated income from received collateral. Considering the current economic conditions, the final outcome of these estimates could differ from the amounts of impairment losses recognised as at 31 December 2016.

(2.5) Summary of significant accounting policies

(1) Foreign currency translation

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

(2) Cash and cash equivalents

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

(3) Financial instruments – recognition and measurement

(i) Date of initial recognition

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

(ii) Initial measurement of financial instruments

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

(iii) Held-to-maturity financial investments

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

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

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

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

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

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

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

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

(i) Fair Value Hedge

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

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

(ii) Cash Flow Hedge

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

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

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

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

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

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

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

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

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

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

(4) Derecognition of financial assets and financial liabilities

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

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

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

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

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

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

(6) Repurchase and reverse repurchase agreements

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

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

(7) Determination of fair value

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

Level 1:	Quoted prices from active markets for identical assets or liabilities
Level 2:	Inputs other than "Level 1" quoted prices, which can be obtained for assets or liabilities either directly (eg prices) or indirectly (derived from interest rates etc)
Level 3:	Input data for assets or liabilities, which cannot be derived from market data

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

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

With respect to the definition of the fair value of financial instruments that are not revalued to fair value, the Bank applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market values. More-detailed information on the methods of calculation of fair values of financial instruments not revalued to fair value is provided in Note 43.

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

(8) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is reduced if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "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. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or necessary reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

(i) Loans and advances to banks and loans and advances to customers

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that will be generated from the realisation of the collateral less costs of sale.

For the purpose of the collective recognition of impairments, financial assets are grouped on the basis of the Bank's internal credit grading system that considers the same credit risk characteristics, in particular financial asset type, industry, method of collateral, and other relevant factors.

The selected types of loans and advances to corporate customers where no impairment was identified on an individual basis, loans and advances are classified into groups – portfolios with similar credit risk characteristics. For portfolios where risk was identified resulting from a change in economic conditions, downturn in the relevant markets and portfolio-based impairment losses are estimated. Portfolio-based impairment losses cover are intended to reflect risk of loss that has not yet been individually identified, but based on historical experience and mainly the anticipated impact of current economic market conditions, are deemed to be inherent in the portfolios as at the reporting date.

In 2016, no new loan portfolios were created. At present, the Bank has eight portfolios created for the collective assessment of receivables with common characteristics, of which four portfolios were created for loans granted to individuals and four portfolios for corporate or project financing.

The Bank does not have a sufficiently-long time series for the calculation of an historical default rate for the loan portfolios. The Bank developed a model for the calculation of provisions for loan portfolios. The amount of such provisions is defined as a percentage of the total portfolio value and depends on the probability of default and loss given default. The input data for the model comprise regular monthly statements reported by the National Bank of Slovakia on the status of loans in the banking sector for the preceding periods and a loan portfolio report of the bank at the year-end. The calculated percentages were lower than the currently-valid portfolio provisions amounts. Based on this fact and in compliance with the Bank's conservative approach, the currently-valid provision amounts were retained. The incurred but not identified losses are in the volume of 3.5% (2015: 3.5%) of the total amount of the loans included in the portfolio of loans for real estate project financing and 2.5% (2015: 2.5%) of the total amount of the loans included in the portfolio of loans for clients engaged in the real estate lease and operations sector (refer also to Note 6 and 7). The Bank recorded a provision in the amount of 2.0% (2015: 2.0%) of the total amount of the loans for the portfolio of loans provided to finance new investment projects. Based on the assessment of changes in loans provided to finance photovoltaic power plants, loans secured by residential real estate and loans collateralised by client assets administered by the Bank, the Bank concluded that it is currently not necessary to create portfolio provisions for such portfolios. It is expected that as future events and uncertainties develop, the management will be able to improve estimates of incurred losses that will result in future adjustments to impairment losses.

Provisioning for incurred credit losses and identified contingencies involve uncertainties resulting from the aforementioned risks and require the management of the Bank to make subjective judgments in estimating the loss amounts. There are significant uncertainties connected mainly with the ultimate implementation of the real estate development projects that is outside the control of management.

The ultimate outcome could differ from those estimates and future changes in the economic conditions, and other factors impacting real estate markets and the development of new investment projects could subsequently result in a change in estimates that could have a material impact on loan loss provisions.

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

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

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

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

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

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

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

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

Buildings and structures	20 to 40 years, linear
Software	Up to 5 years, linear
Other assets	4 to12 years, linear

Land and assets under construction are not depreciated.

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

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

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

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

(12) Guarantees issued

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

(13) Provisions for liabilities

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

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

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

(14) Recognition of income and expenses

(i) Interest expense and interest income

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

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

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

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

(ii) Fee and commission income and expenses

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

(iii) Income tax

Income tax includes current tax and deferred tax.

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

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

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

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

(15) Subsidiaries and other equity investments

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

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

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

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

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

3. RECOGNITION OF SELECTED ASSETS BY GEOGRAPHICAL AREA

Classification by geographical area as at 31 December 2016:

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

Classification by geographical area as at 31 December 2015:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Available-for-sale securities	Securities at fair value through profit or loss	Securities held-to-maturity	Investments in subsidiaries
Australia	-	-	-	2 110	-	-	-
Bulgaria	-	-	-	3 247	-	-	-
Cyprus		-	1	-	-	-	-
Czech Republic	128	6 024	38 450	2 941	-	-	-
Finland	-	-	-	-	-	-	-
France	-	-	100	11 329	-	-	-
Netherlands	-	330	15	-	-	1 995	-
Ireland	-	-	-	8 408	-	2 188	-
Jersey	-	-	-	-	-	-	-
Lithuania	-	-	-	11 448	-	-	-
Luxembourg	-	-	-	5 260	-	1 617	-
Hungary	-	-	-	-	-	2 550	-
Germany	-	77	-	2 075	-	-	-
Poland	-	188	13 141	25 522	-	7 938	-
Austria	-	106	-	18 294	-	3 095	-
Seychelles	-	-	224	-	-	-	-
Slovak Republic	30 010	3 008	211 616	28 757	273	76 718	7
USA	112	-	-	19 353	-	1 997	-
Spain	-	-	-	-	-	5 658	-
Switzerland	112	-	-	-	-	-	-
Sweden	-	-	-	13 053	-	1 039	-
Italy	-	-	-	13 573	-	22 673	-
United Kingdom	66	-	-	10 816	-	-	-
Total gross	30 428	9 733	263 547	176 186	273	127 468	7
Provisions (Note 7)	-	-	(15 133)	-	-	-	-
Total net	30 428	9 733	248 414	176 186	273	127 468	7

4. CASH AND BALANCES WITH CENTRAL BANKS

EUR '000	2016	2015
Cash on hand	1 730	2 360
Minimum reserve deposits at NBS	35 968	28 068
Total cash and balances with central banks	**37 698**	**30 428**

Receivables from central banks are not secured by any collateral.

The minimum reserve deposits are recognised as an interest-bearing deposit under the regulations of the National Bank of Slovakia. The amount of the reserves depends on the level of deposits accepted by the Bank. The Bank's ability to withdraw the reserve is restricted by statutory legislation; therefore, it is not included in "Cash and balances with central banks" for the purposes of cash flow statement preparation (see Note 34).

5. LOANS AND ADVANCES TO BANKS

EUR '000	2016	2015
Current bank accounts	10 574	6 309
Term deposits in banks	330	330
Other amounts due from banks	132	3 094
Total loans and advances to banks	**11 036**	**9 733**

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

6. LOANS AND ADVANCES TO CUSTOMERS

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

EUR '000	2016	2015
Loans and advances to		
entrepreneurs and corporate entities	289 551	241 149
individuals	13 857	22 398
Total loans and advances to customers, gross	**303 408**	**263 547**
Provisions for loans and advances to customers (Note 7)	(14 230)	(15 133)
Total loans and advances to customers, net	**289 178**	**248 414**

As at 31 December 2016, the 15 largest customers accounted for 42.4% of the gross loan portfolio, which amounted to EUR 128 749 thousand (2015: 46.1%, EUR 121 568 thousand).

Further details on credit risk are described in Note 41.

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

EUR '000	2016	2015
Residents		
Non-financial institutions	216 102	178 732
Non-profit organisations	1 202	1 924
Self-employed	102	52
Individuals	10 030	22 208
Non-residents		
Financial institutions	34 036	-
Non-financial institutions	38 212	60 485
Self-employed	6	-
Individuals	3 718	146
Total loans and advances to customers, gross	**303 408**	**263 547**
Provisions for loans and advances to customers (Note 7)	(14 230)	(15 133)
Total loans and advances to customers, net	**289 178**	**248 414**

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

EUR '000	2016	Share in %	2015	Share in %
Short-term loans	**63 359**		**87 205**	
Of which: project financing	687	0,23	6 555	2,49
Operating	-	0,00	4 866	1,85
Real estate loans	389	0,13	15 288	5,80
Overdrafts	13 578	4,48	15 457	5,86
Other	49 392	16,27	51 594	19,58
Long-term loans	**240 049**		**176 342**	
Of which: project financing	28 139	9,27	12 632	4,79
Investment	26 736	8,81	29 911	11,35
Real estate loans	42 409	13,98	25 391	9,63
Photovoltaic power plants	4 145	1,37	5 138	1,95
New investment projects	8 333	2,75	12 828	4,87
Other	158 426	52,21	103 074	39,11
Total loans and advances to customers, gross	**303 408**	**100,00**	**263 547**	**100,00**
Provisions for loans and advances to customers (Note 7)	(14 230)		(15 133)	
Total loans and advances to customers, net	**289 178**		**248 414**	

The share of project financing loans to the gross receivables from customers at the end of 2016 represents 9.5% (2015: 7.3%).

(d) Risk categorisation of loans to customers

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

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

In 2016, the interest income on impaired loans to customer amounted to EUR 1 845 thousand (2015: EUR 828 thousand).

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2015. Exposure information includes undrawn loan commitments and issued guarantees.

EUR '000	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions	**57 886**	**1 074**	**1,86%**	**55 464**	**97,67%**
Individuals	14 806	-	0,00%	14 101	95,24%
Of which: defaults	-	-	-	-	-
Entrepreneurs and corporate entities	43 080	1 074	2,49%	41 363	98,51%
Of which: defaults	-	-	-	-	-
Individual provisions	**205 661**	**14 059**	**6,84%**	**113 733**	**62,14%**
Non-impaired exposures	169 388	-	-	85 157	50,27%
Impaired exposures	36 273	14 059	38,76%	28 576	117,54%
Subtotal, balance-sheet items	**263 547**	**15 133**	**5,74%**	**169 197**	**69,94%**
Off-balance sheet Retail Asset Class	2 028	-	-		
Off-balance sheet Corporate Asset Class	30 809	-	-		
Subtotal, off-balance sheet items	**32 837**	**-**	**-**		
Total	**296 384**	**15 133**	**5,11%**		

7. PROVISIONS FOR IMPAIRMENT LOSSES

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

EUR '000	1 Jan 2015	(Creation)	Release	Use for written-off receivables	Exchange rate gain/loss	31 Dec 2015
Loans and advances to customers (Note 6)	(12 143)	(16 018)	13 045	-	(17)	(15 133)
Other assets (Note 14)	(205)	(21)	3	179	-	(44)
Total provisions	**(12 348)**	**(16 039)**	**13 048**	**179**	**(17)**	**(15 177)**

8. AVAILABLE-FOR-SALE SECURITIES

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

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

Breakdown of available-for-sale securities per type of security and issuer's country as at 31 December 2015:

EUR '000	Government bonds	Bank bonds	Corporate bonds	Trustee shares	Shares	**Total**
Australia	-	2 110	-	-	-	**2 110**
Bulgaria	3 247	-	-	-	-	**3 247**
Czech Republic	-	-	2 941	-	-	**2 941**
France	-	-	11 329	-	-	**11 329**
Ireland	-	-	5 392	3 016	-	**8 408**
Lithuania	11 448	-	-	-	-	**11 448**
Luxembourg	-	-	-	5 260	-	**5 260**
Germany	-	-	-	2 075	-	**2 075**
Poland	5 295	-	20 227	-	-	**25 522**
Austria	-	18 294	-	-	-	**18 294**
Slovak Republic	10 177	-	18 528	-	52	**28 757**
USA	-	19 353	-	-	-	**19 353**
Sweden	-	-	13 053	-	-	**13 053**
Italy	13 573	-	-	-	-	**13 573**
United Kingdom	-	10 816	-	-	-	**10 816**
Total	**43 740**	**50 573**	**71 470**	**10 351**	**52**	**176 186**

The method for measuring the fair value of available-for-sale securities is described in Note 43.

In connection with the transfer of securities from the "available-for-sale securities" portfolio to the "held-to-maturity securities" portfolio in 2011, the Bank continues to recognise as at 31 December 2016 revaluation reserves from available-for-sale securities in the amount of EUR 24 thousand (loss) in equity; the loss will be amortised in the income statement until the maturity of these securities (2015: a loss of EUR 35 thousand). In 2016, a loss in the amount of EUR 11 thousand (2015: a loss of EUR 86 thousand) was amortised in the Income Statement line "Interest income and similar income".

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

EUR '000	2016	2015
Government bonds foreign	8 376	28 550
Bank bonds foreign	63 109	30 700
Corporate bonds domestic	8 429	8 509
Corporate bonds foreign	8 613	8 426
Total	**88 527**	**76 185**

Securities in pooling are provided as collateral for refinancing transactions with the NBS and loans from the ECB (see Note 15).

9. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank recognised no securities at fair value through profit or loss as at 31 December 2016.

Breakdown of securities at fair value through profit or loss per type of security and issuer's country as at 31 December 2015:

EUR '000	Government bonds	Total
Slovak Republic	273	**273**
Total	**273**	**273**

The method for measuring the fair value of securities at fair value through profit or loss is described in Note 43.

10. HELD-TO-MATURITY SECURITIES

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

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

Breakdown of held-to-maturity securities per type of security and issuer's country as at 31 December 2015:

EUR '000	Government bonds	Bank bonds	Corporate bonds	Total
Netherlands	-	-	1 995	**1 995**
Ireland	-	-	2 188	**2 188**
Luxembourg	-	-	1 617	**1 617**
Hungary	-	-	2 550	**2 550**
Poland	7 938	-	-	**7 938**
Austria	-	3 095	-	**3 095**
Slovak Republic	72 695	4 023	-	**76 718**
USA	-	1 997	-	**1 997**
Spain	-	-	5 658	**5 658**
Sweden	-	-	1 039	**1 039**
Italy	22 673	-	-	**22 673**
Total	**103 306**	**9 115**	**15 047**	**127 468**

As at 31 December 2016, the Bank's portfolio of held-to-maturity securities included domestic government bonds at amortised cost of EUR 2 037 thousand (2015: EUR 2 035 thousand) provided as collateral to a local bank.

The structure of securities provided as collateral for pooling to the National Bank of Slovakia and loans from the ECB (see Note 15) is as follows:

EUR '000	2016	2015
Government bonds domestic	7 352	33 115
Government bonds foreign	14 559	30 611
Bank bonds domestic	4 027	4 023
Bank bonds foreign	-	5 092
Corporate bonds foreign	10 054	3 996
Total	**35 992**	**76 837**

11. INVESTMENTS IN SUBSIDIARIES

Name	Registered office	Share in the registered capital EUR '000	Share in the reserve fund EUR '000	Share in the registered capital (%)	Carrying amount EUR '000
At 31 Dec 2016					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7
At 31 Dec 2015					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7

12. TANGIBLE AND INTANGIBLE ASSETS

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

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

b) Changes in tangible and intangible assets as at 31 December 2015

	Tangible assets					Intangible assets				
EUR '000	Buildings	Furniture, fittings and equipment	Motor vehicles	Acquisition of tangible assets	Prepayments made for tangible assets	Software	Patents and licences	Acquisition of intangible assets	Prepayments made for intangible assets	**Total**
Cost										
At 1 Jan 2015	581	3 005	243	-	-	4 338	69	75	-	**8 311**
Additions	-	114	-	114	-	183	9	118	-	**538**
Disposals	-	(94)	-	(114)	-	(4)	(8)	(192)	-	**(412)**
At 31 Dec 2015	581	3 025	243	-	-	4 517	70	1	-	**8 437**
Accumulated depreciation										
At 1 Jan 2015	(147)	(2 469)	(205)	-	-	(3 964)	(69)	-	-	**(6 854)**
Depreciation and amortisation	(25)	(331)	(24)	-	-	(124)	(9)	-	-	**(513)**
Disposals	-	93	-	-	-	4	8	-	-	**105**
At 31 Dec 2015	(172)	(2 707)	(229)	-	-	(4 084)	(70)	-	-	**(7 262)**
Net book value										
At 31 Dec 2015	**409**	**318**	**14**	**-**	**-**	**433**	**-**	**1**	**-**	**1 175**

c) Insurance of assets

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

13. TAX PREPAYMENTS / CURRENT TAX LIABILITY

EUR '000	2016	2015
Tax prepayments	2 645	2 736
Current tax	(2 527)	(2 646)
Total	**118**	**90**

14. OTHER ASSETS

EUR '000	2016	2015
Positive fair value of derivatives for trading (Note 25)	19	28
Other debtors	2 429	1 246
Operating advance payments made	227	38
Inventory	23	32
Deferred expenses	157	185
Other receivables from customers	43	3
Other	1	4
Total other assets, gross	**2 899**	**1 536**
Provisions for other debtors (Note 7)	(99)	(44)
Total other assets, net	**2 800**	**1 492**

15. DUE TO BANKS

EUR '000	2016	2015
Loan received from the ECB	76 189	96 197
Term deposits of other banks	20 017	-
Other liabilities	6	1
Total due to banks	**96 212**	**96 198**

All payables due to banks are within maturity.

As at 31 December 2016, loans received from the ECB comprise a loan of EUR 46 160 thousand falling due in September 2018, and a loan of EUR 30 000 thousand falling due in June 2020. These loans are secured by securities at the fair value of EUR 88 527 thousand (31 December 2015: EUR 76 185 thousand), which are disclosed in the Statement of Financial Position as "Available-for-sale securities", and securities at amortised cost of EUR 35 992 thousand (31 December 2015: EUR 76 837 thousand), which are disclosed in the Statement of Financial Position as "Held-to-maturity securities".

16. DEPOSITS FROM CUSTOMERS

(a) Breakdown of deposits from customers per type

EUR '000	2016	2015
Current accounts	124 364	120 499
Term deposits	314 877	293 111
Savings deposits	260	313
Other	431	3 279
Total deposits from customers	**439 932**	**417 202**

As at 31 December 2016, the 15 largest clients accounted for 12.9% of the total deposits from customers, which represents the amount of EUR 56 693 thousand (2015: 19%, EUR 79 593 thousand).

A portion of the deposits from customers comprises payables to related parties. Their share of the total deposits from customers as at 31 December 2016 represented 6.6%, totalling EUR 28 932 thousand (2015: 17%, EUR 70 956 thousand). Additional information on exposures to related parties is described in Note 36.

All deposits from customers are within maturity.

(b) Breakdown of deposits from customers by sector

EUR '000	2016	2015
Residents		
Financial institutions	18 655	39 413
Non-financial institutions	28 216	51 023
Insurance companies	348	795
Public administration	8 506	6 237
Non-profit organisations	3 348	3 459
Self-employed	1 008	1 261
Individuals	326 280	273 198
Non-residents		
Financial institutions	10 576	19
Non-financial institutions	21 588	13 033
Non-profit organisations	104	3
Insurance companies	-	11 441
Public administration	-	63
Self-employed	-	811
Individuals	21 303	16 446
Total deposits from customers	**439 932**	**417 202**

17. DEBT SECURITIES ISSUED

(a) Breakdown of debt securities issued according to type

EUR '000	2016	2015
Bills of exchange	100	101
Coupon bonds	6 682	16 731
Total debt securities issued	**6 782**	**16 832**

All payables under the debt securities issued are within maturity.

(b) Summary of bonds issued

EUR ´000	Date of issue	Maturity of issue	Interest rate	Face value 2016	Face value 2015
Bond 13 - 4.50% 20160330	03/2012	03/2016	4,50%	-	3 000
Bond 15 - 3.20% 20160131	01/2013	01/2016	3,20%	-	4 000
Bond 17 - 2.00% 20170821	08/2014	08/2017	2,00%	3 139	5 000
Bond 18 - 2.00% 20180521	05/2015	05/2018	2,00%	3 512	4 662
Total face value				**6 651**	**16 662**
Acrued interest				31	69
Accrued discount/premium				-	(4)
Total discount/premium (difference between face value and selling price)				-	4
Total liabilities from debt securites				**6 682**	**16 731**

The issued bonds are bearer bonds and all bonds were issued as book-entry securities. Bonds were issued under a public offering. Bonds were not accepted at the listed securities market or any other stock market.

On 31 January 2016, the Bank repaid the face value of 4 000 units of Privatbanka 15 bonds (ISIN: SK4120008962) totalling EUR 4 000 thousand.

On 30 March 2016, the Bank repaid the face value of 3 000 units of Privatbanka 13 bonds (ISIN: SK4120008376) totalling EUR 3 000 thousand.

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

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

EUR ´000	2016	2015
Residents		
Non-financial institutions	3 078	5 089
Public administartion	277	307
Non-profit organisations	122	579
Individuals	3 288	10 658
Non-residents		
Individuals	17	199
Total debt securities issued	**6 782**	**16 832**

18. DEFERRED TAX LIABILITY

Deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
EUR '000	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Tangible and intangible assets	-	-	11	15	11	15
Securities - remeasurement in equity	-	-	696	649	696	649
Hedging derivative instruments - remeasurement in equity	(25)	(42)	-	-	(25)	(42)
Total	**(25)**	**(42)**	**707**	**664**	**682**	**622**

The deferred tax assets and liabilities have been calculated using the corporate income tax rate of 21% (2015: 22%).

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

The Bank does not expect to realise benefits from tax non-deductible provisions for impairment losses in the future. Therefore, as at 31 December 2016 the Bank did not recognise a deferred income tax asset of EUR 3 009 thousand arising from tax non-deductible provisions for impairment losses (2015: 3 317 thousand EUR).

As at 31 December 2016, the Bank does not recognise a deferred tax asset relating to provisions for bonuses of the Bank's employees and management in the amount of EUR 208 thousand (2015: EUR 288 thousand).

19. OTHER LIABILITIES

EUR '000	2016	2015
Negative fair value of derivatives for trading (Note 25)	126	142
Negative fair value of derivatives to hedge fair value (Note 25)	134	184
Negative fair value of derivatives to hedge cash flows (Note 25)	118	192
Other creditors	393	192
Settlement with employees	562	257
Social fund	16	9
Payables to the state budget	1 494	1 302
Payables to social and health insurance companies	308	162
Deferred income	49	33
Accrued expenses	2 137	1 823
Other amounts due to customers	878	745
Total other liabilities	**6 215**	**5 041**

Movements in the social fund:

EUR '000	
Balance at 31 Dec 2015	9
Creation	63
Drawing	(56)
Balance at 31 Dec 2016	16

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

Share capital

EUR '000	2016	2015
Issued and fully paid share capital:		
756 874 ordinary shares (ISIN SK1110001619 with a face value of EUR 33.19 each)	**25 121**	**25 121**

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

The structure of the Bank's shareholders as at 31 December 2016 and 31 December 2015:

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

Legal reserve fund

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

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

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

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

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

21. PROPOSAL FOR DISTRIBUTION OF 2016 PROFIT

EUR '000	2016
Allotment to retained earnings	9 111
Net profit for the current reporting period	**9 111**

22. TAX REVENUE/(EXPENSE)

EUR '000	2016	2015
Current income tax	(2 527)	(2 646)
Deferred tax due to temporary differences	5	37
Total	**(2 522)**	**(2 609)**

23. RECONCILIATION OF THEORETICAL AND RECORDED INCOME TAX

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

	2015		
	Balance (EUR '000)	Applicable rate	Impact on tax
Theoretical tax base	7 843	22%	1 725
Permanent non-deductible differences	220	22%	48
Permanent deductible differences	6	22%	1
Effect of use of tax losses carried forward - previously unrecognised deferred tax asset	-	22%	-
Unrecognised deferred tax asset - other	980	22%	216
Unrecognised deferred tax asset owing to temporary differences, utilisation of which is unceratin in the future	2 812	22%	619
Impact of a change of the tax rate			-
Adjusted tax			2 609
Effective tax expense			2 609

24. OFF-BALANCE SHEET ITEMS

EUR '000	Off-balance sheet assets	2016	2015
1. Receivables from forwards, futures and swaps:		21 624	8 154
a) With interest rate instruments		-	15
b) With currency instruments		21 624	8 139
2. Received collaterals:		188 295	190 941
a) Immovables		90 321	77 645
b) Cash		18 179	27 208
c) Securites		40 682	48 007
d) Other		39 113	38 081

EUR '000	Off-balance sheet liabilities	2016	2015
1. Undrawn credit facilities		34 856	28 203
2. Issued guarantees		5 097	4 634
3. Liabilities from futures, forwards and swaps:		21 983	8 644
a) With interest rate instruments		252	472
b) With currency instruments		21 731	8 172
4. Securities provided as collateral		126 556	155 057
5. Cash provided as collateral		330	330
6. Liabilities from consigned values		198 382	180 812

The whole amount of undrawn loan facilities and provided guarantees in 2016 and 2015 represents irrevocable commitments.

25. FINANCIAL DERIVATIVES

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

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

2015 EUR '000	Face value in off-balance sheet Receivable	 Payable	Fair value Positive	 Negative	Net fair value
Interest rate swaps for trading	3 000	3 000	-	(81)	(81)
Currency swaps for trading	8 141	8 174	28	(61)	(33)
Interest rate swaps to hedge fair value	7 000	7 000	-	(184)	(184)
Interest rate swaps to hedge cash flows	15 000	15 000	-	(192)	(192)
Total financial derivatives	**33 141**	**33 174**	**28**	**(518)**	**(490)**

The positive fair value of derivatives as at 31 December 2016 in the amount of EUR 19 thousand (2015: EUR 28 thousand) is recognised in "Other assets" (Note 14). The negative fair value of derivatives as at 31 December 2016 in the amount of EUR 378 thousand (2015: EUR 518 thousand) is recognised in "Other liabilities" (Note 19).

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

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

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2015 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps for trading	-	-	3 000	-	-	**3 000**
Currency swaps for trading	6 911	248	982	-	-	**8 141**
Interest rate swaps to hedge fair value	-	-	-	7 000	-	**7 000**
Interest rate swaps to hedge cash flows	-	-	-	15 000	-	**15 000**
Total receivables	**6 911**	**248**	**3 982**	**22 000**	**-**	**33 141**
Interest rate swaps for trading	-	-	3 000	-	-	**3 000**
Currency swaps for trading	6 939	257	978	-	-	**8 174**
Interest rate swaps to hedge fair value	-	-	-	7 000	-	**7 000**
Interest rate swaps to hedge cash flows	-	-	-	15 000	-	**15 000**
Total payables	**6 939**	**257**	**3 978**	**22 000**	**-**	**33 174**

26. INTEREST INCOME AND SIMILAR INCOME

EUR '000	2016	2015
Interest income from amounts due from banks and central bank	21	24
Interest income from clients' current accounts	422	524
Interest income from clients' loans	12 186	12 119
Interest income from available-for-sale securities	3 534	4 215
Interest income from securities at fair value through profit or loss	9	37
Interest income from held-to-maturity securities	2 760	4 664
Interest rate swaps	55	52
Other	-	1
Total interest income and similar income	**18 987**	**21 636**

27. INTEREST EXPENSE AND SIMILAR EXPENSE

EUR '000	2016	2015
Interest expense from amounts due to banks	317	87
Interest expense from clients' current accounts	263	276
Interest expense from clients' term deposits	6 271	6 397
Interest expense from clients' savings deposits	7	7
Interest expense from debt securities	307	447
Interest rate swaps	253	245
Total interest expense and similar expense	**7 418**	**7 459**

28. FEE AND COMMISSION INCOME

EUR '000	2016	2015
For the following areas:		
Loans	251	212
Payments	76	98
Itemised fees	224	239
Securities trading	8 983	6 418
Portfolio management	895	809
Other	43	52
Total fee and commission income	**10 472**	**7 828**

29. FEE AND COMMISSION EXPENSE

EUR '000	2016	2015
For the following areas:		
Loans	2	85
Payments	257	220
Interbank transactions	28	30
Securities trading	308	271
Intermediation	42	37
Total fee and commission expense	**637**	**643**

30. TRADING PROFIT

EUR '000	2016	2015
Realised profit/loss from debt securities transactions (available-for-sale)	100	389
Profit/loss from debt securities transactions (at fair value through profit or loss)	(8)	(1)
Profit/loss from warrant transactions (at fair value through profit or loss)	-	1
Profit/loss from shares and trustee shares (available-for-sale)	696	373
Profit/loss from derivative transactions	6	97
Profit/loss from forex transactions	335	183
Other	(13)	-
Total trading profit	**1 116**	**1 042**

31. GENERAL OPERATING EXPENSES

EUR '000	2016	2015
Wages, salaries and social security payments	6 397	6 324
Other general operating expenses	5 095	4 883
Of which: Costs of auditing financial statements	91	91
Assurance audit services other than the audit of financial statements	4	5
Other non-audit services	1	-
Contributions to Deposits Protection Fund	90	80
Special levy of financial institutions	1 087	1 086
Contribution to the Resolution Fund	134	95
Rent	805	814
Energy	35	161
Advertising costs	159	203
IT systems	379	333
Training and education	34	40
Car maintenance and fuel	38	35
Membership fees	212	198
Other services	922	1 046
Other operating expenses	1 104	696
Total general operating expenses	**11 492**	**11 207**

The average number of employees in 4Q of 2016 was 167 (2015: 167). The number of employees as at 31 December 2016 was 168 (2015: 166). The number of members of management as at 31 December 2016 was 6 (2015: 6).

As of 1 January 2012, banks and branches of foreign banks in Slovakia are obliged to pay a special levy (the so-called bank tax) pursuant to Act No. 384/2011 Coll. on Special Levy of Selected Financial Institutions and on Amendment to and Supplementation of Certain Acts (hereinafter the "Special Levy Act"). The banks and branches of foreign banks are obliged to pay a special levy in four quarterly instalments in the amount of one fourth of the annual rate (current annual rate: 0.2% (2015: 0.2%)) of the amount of the Bank's liabilities defined in the Special Levy Act.

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

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

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

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

EUR '000	2016	2015
(Creation) of provisions for impairment losses (Note 7)	(13 536)	(16 039)
Release of provisions for impairment losses (Note 7)	14 384	13 048
Use of provisions for written-off receivables (Note 7)	-	179
Written-off receivables, gross	(3)	(197)
Income from assignment of receivables	128	144
Total	**973**	**(2 865)**

33. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

EUR '000	2016	2015
Profit before income taxes	11 633	7 843
Adjustments for non-cash transactions:		
Interest income	(18 987)	(21 636)
Interest expense	7 418	7 459
Revaluation of securities recognised at fair value through profit or loss	7	-
Revaluation of derivatives for trading	(6)	(97)
Depreciation/amortisation of tangible and intangible assets	374	513
Provisions for receivables, write-off of receivables	(973)	2 865
Provisions for liabilities	-	(6)
Net book value of disposed tangible assets	-	1
Income from the sale of tangible assets	(5)	(1)
Total before interest received/(paid)	**(539)**	**(3 059)**
Interest received	20 861	20 976
Interest paid	(7 333)	(9 703)
Profit before changes in operating assets and liabilities	**12 989**	**8 214**

34. CASH AND CASH EQUIVALENTS

EUR '000	2016	2015
Cash on hand (Note 4)	1 730	2 360
Loans and advances to banks due within 3 months	10 706	9 404
Cash and cash equivalents	**12 436**	**11 764**

35. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Legal disputes

The Bank conducted a review of legal proceedings pending against the Bank as at 31 December 2016 and 31 December 2015. Under the review of risks of losses from major litigations and the involved amounts, the Bank recorded a provision for such litigations amounting to EUR 331 thousand as at 31 December 2016 (2015: EUR 331 thousand).

b) Commitments arising from issue of guarantees

Commitments from guarantees include issued guarantees that represent an irrevocable commitment that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Based on the risk assessment as at 31 December 2016 and 31 December 2015, the Bank did not create any provisions to cover losses included in balances of undrawn loan commitments and guarantees, which are recognised in off-balance sheet accounts.

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

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

36. RELATED PARTY TRANSACTIONS

Related parties as defined by IAS 24 include:

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

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

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

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

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

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

EUR '000	Balance at 31 Dec 2015	Accruals at 31 Dec 2015	Total	Interest expense/ Interest income 2015	Fee and commision income 2015	Trading profit /loss 2015	General operating expenses 2015	(Creation)/ release of provisions 2015
Receivables from the parent company								
Loans and advances to customers	-	-	-	-	-	-	-	-
Other assets	3	-	3	-	9	2	-	-
Payables to the parent company								
Deposits from customers	25	-	25	-	4	-	-	-
Other payables	-	-	-	-	-	-	-	-
Receivables from the parent company's related parties								
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	13 031	748	13 779	1 390	21	-	-	242
Available-for-sale securities	19 037	1 191	20 228	1 077	-	-	-	-
Other assets	386	-	386	-	5 344	129	-	-
Payables to the parent company's related parties								
Due to banks	-	-	-	(1)	-	-	-	-
Deposits from customers	68 947	1	68 948	(506)	54	-	-	-
Debt securities issued	318	2	320	(12)	-	-	-	-
Other liabilities	15	-	15	72	-	-	(760)	-
Undrawn credit facilities	5 733	-	5 733	-	-	-	-	-
Received collateral	28 642	-	28 642	-	-	-	-	-

EUR '000	Balance at 31 Dec 2015	Accruals at 31 Dec 2015	Total	Interest expense/ Interest income 2015	Fee and commision income 2015	Trading profit /loss 2015	General operating expenses 2015	(Creation)/ release of provisions 2015
Receivables from subsidiaries								
Investments in subsidiaries	7	-	7	-	-	-	-	-
Payables to subsidiaries								
Deposits from customers	8	-	8	-	-	-	-	-
Receivables from management members and their related parties								
Loans and advances to customers	165	-	165	1	-	-	-	-
Other assets	3	-	3	-	5	-	-	-
Payables due to management members and their related parties								
Deposits from customers	1 975	-	1 975	(7)	2	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-
Other liabilities	592	-	592	1	-	-	(641)	-
Of which: wages and salaries plus insurance contributions	-	-	-	-	-	-	(641)	-
Undrawn credit facilities	37	-	37	-	-	-	-	-
Received collateral	165	-	165	-	-	-	-	-

Wages and salaries and social insurance expenses with respect to the statutory representatives and members of the Supervisory Board were in the amount of EUR 690 thousand as at 31 December 2016 (2015: EUR 641 thousand). Members of the Bank's bodies in 2016 and 2015 did not receive any non-cash remuneration.

37. FINANCIAL INSTRUMENTS – MARKET RISK

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

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

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

(a) Interest rate risk

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

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

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

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

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

The average effective interest rates of assets and liabilities as at 31 December 2015 and the periods in which these rates are remeasured are as follows:

EUR '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	0,05%	28 068	-	-	-	-	2 360	**30 428**
Loans and advances to banks	0,35%	6 638	-	-	-	-	3 095	**9 733**
Loans and advances to custon	4,62%	50 351	95 629	53 170	39 588	661	9 015	**248 414**
Available-for-sale securities	2,46%	28 098	11 867	40 972	76 188	8 658	10 403	**176 186**
Securities at fair value through profit or loss	4,18%	11	-	-	262	-	-	**273**
Held-to-maturity securities	3,34%	5 007	39 642	20 954	43 954	17 911	-	**127 468**
Investments in subsidiaries	-	-	-	-	-	-	7	**7**
Total assets		**118 173**	**147 138**	**115 096**	**159 992**	**27 230**	**24 880**	**592 509**
Due to banks	0,05%	1	-	-	96 197	-	-	**96 198**
Deposits from customers	1,55%	102 113	31 485	99 024	181 301	-	3 279	**417 202**
Debt securities issued	2,73%	4 123	3 036	11	9 662	-	-	**16 832**
Total liabilities		**106 237**	**34 521**	**99 035**	**287 160**	**-**	**3 279**	**530 232**
Difference		**11 936**	**112 617**	**16 061**	**(127 168)**	**27 230**	**21 601**	**62 277**
Cumulative difference		**11 936**	**124 553**	**140 614**	**13 446**	**40 676**	**62 277**	

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

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

EUR '000	Impact on net profit	Impact on equity
2016		
+ 0,5% for all currencies	-	(2 270)
- 0,5% for all currencies	-	2 326
2015		
+ 0,5% for all currencies	(1)	(1 268)
- 0,5% for all currencies	1	1 297

(b) Currency risk

Currency risk is the risk of a change in the value of the Bank's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Bank manages currency risk by determining and daily monitoring of maximum limits of open positions of the banking book for individual currencies. A potential excessive open currency position of the Banking Book is immediately repurchased through an internal operation in the Trading Book. The currency risk of the trading book is limited by maximum exposure using the VaR model. The tables below show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured open currency positions as at year-end 2016 and 2015.

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

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

As at 31 December 2015, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	Total
Cash and balances with central banks	30 010	128	112	178	**30 428**
Loans and advances to banks	766	6 024	2 011	932	**9 733**
Loans and advances to customers	243 122	5 292	-	-	**248 414**
Available-for-sale securities	167 432	-	8 754	-	**176 186**
Securities at fair value through profit or loss	273	-	-	-	**273**
Held-to-maturity securities	127 468	-	-	-	**127 468**
Investments in subsidiaries	7	-	-	-	**7**
Total assets	**569 078**	**11 444**	**10 877**	**1 110**	**592 509**
Due to banks	96 197	-	-	1	**96 198**
Deposits from customers	392 996	11 865	11 383	958	**417 202**
Debt securities issued	16 731	-	-	101	**16 832**
Total liabilities	**505 924**	**11 865**	**11 383**	**1 060**	**530 232**
Net FX position	**63 154**	**(421)**	**(506)**	**50**	**62 277**

The table below is a summary of the currencies in which the Bank has more significant open positions as at 31 December 2016 and 31 December 2015. The sensitivity analysis calculates the effect of possible changes in the exchange rate against the selected currencies on the Income Statement. A positive amount reflects a net potential gain and a negative amount reflects net potential loss on the Income Statement.

EUR '000	Change in exchange rate	Impact on net profit
2016		
CHF	+10,22%	-
GBP	+27,95%	(6)
USD	+21,51%	12
CZK	+1,47%	38
2015		
CHF	+42,42%	4
GBP	+22,49%	5
USD	+26,47%	(2)
CZK	+7,24%	(72)

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

38. MANAGEMENT OF CAPITAL

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

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

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

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

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

The amount of regulatory capital as at 31 December 2016 and 31 December 2015 is as follows:

EUR '000	2016	2015
Tier 1 capital	**59 101**	**53 522**
Paid up share capital	25 121	25 121
Reserve fund and other funds created from profit	5 024	4 692
Retained earnings from previous years	26 744	21 843
Accumulated other comprehensive accounting profit/loss	2 618	2 300
(-) Intangible assets	(406)	(434)
Temporary adjustments of capital	-	-
Tier 2 capital	-	-
Subordinated debt	-	-
Regulatory capital	**59 101**	**53 522**

The indicators of the Bank's capital adequacy as at 31 December 2016 and 31 December 2015 are provided in the table below:

EUR '000	2016	2015
Adequacy of regulatory capital (%)	**12,82%**	**13,37%**
Regulatory capital	**59 101**	**53 522**
Total amount of risk exposures	**461 085**	**400 323**
RVE - credit risk and counterparty's credit risk	414 721	359 202
RE - position risk	1 893	1 301
RE - foreign exchange risk	2 841	-
RE - adjustment of the receivable measurement	-	1
RE - operational risk	41 630	39 819

The National Bank of Slovakia, as the supervising authority, requires that the Bank maintain the proportion of the regulatory capital to total risk-weighted exposure of at least 8%. As at 31 December 2016, a cushion to maintain capital in the amount of 2.5% is effective, and the Bank also applies an anti-cyclical cushion to selected exposures. The total combined cushion of the Bank is in the amount of 2.53%, ie the total ratio of regulatory capital to total risk-weighted exposures must be maintained at least at 10.53% by the Bank as at 31 December 2016.

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

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

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

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2015:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	30 428	-	-	-	-	-	**30 428**
Loans and advances to banks	9 651	82	-	-	-	-	**9 733**
Loans and advances to customers	426	24 797	99 580	113 284	1 245	9 082	**248 414**
Available-for-sale securities	-	809	25 802	115 074	24 098	10 403	**176 186**
Securities at fair value through profit or loss	-	11	-	262	-	-	**273**
Held-to-maturity securities	-	41 464	19 014	49 078	17 912	-	**127 468**
Investments in subsidiaries	-	-	-	-	-	7	**7**
Tangible and intangible assets	-	-	-	-	-	1 175	**1 175**
Tax prepayments	-	90	-	-	-	-	**90**
Other assets	381	720	-	-	-	391	**1 492**
Total assets	**40 886**	**67 973**	**144 396**	**277 698**	**43 255**	**21 058**	**595 266**
Due to banks	1	-	-	96 197	-	-	**96 198**
Deposits from customers	126 037	50 260	99 152	141 749	-	4	**417 202**
Debt securities issued	-	7 160	11	9 661	-	-	**16 832**
Current tax liability	-	-	-	-	-	-	**-**
Deferred tax liability	-	622	-	-	-	-	**622**
Provisions for liabilities	-	-	-	-	-	331	**331**
Other liabilities	1 191	1 267	-	-	-	2 583	**5 041**
Total liabilities	**127 229**	**59 309**	**99 163**	**247 607**	**-**	**2 918**	**536 226**
Difference	**(86 343)**	**8 664**	**45 233**	**30 091**	**43 255**	**18 140**	**59 040**
Cummulative difference	**(86 343)**	**(77 679)**	**(32 446)**	**(2 355)**	**40 900**	**59 040**	

The bulk of deposits from customers payable within seven days in the amount of EUR 126 037 thousand include deposits payable on demand, which are unlikely to be paid to customers within the defined interval.

40. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

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

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

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

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2015:

EUR'000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not specified	Total
Due to banks	-	-	-	96 364	-	-	**96 364**
Deposits from customers	120 499	53 034	99 770	150 300	-	-	**423 603**
Debt securities issued	-	7 217	143	9 902	-	-	**17 262**
Total liabilities	**120 499**	**60 251**	**99 913**	**256 566**	**-**	**-**	**537 229**

41. FINANCIAL INSTRUMENTS – CREDIT RISK

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

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

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

Factors leading to the creation of impairment losses for financial assets assessed individually in 2016:

1. The client was unable to realise its business plan in the agreed time;
2. The client failed to meet the agreed contracting terms and conditions despite the Bank's notices;
3. The client failed to repay the granted loan in a due and timely manner.

Provisioning

The Bank has defined in its internal instructions loss events and assigned the corresponding reduction of future cash flows from debtors' economic activities; subsequently, it discounts all estimated cash flows, including cash flows from realising collateral, using the effective interest rate. In the event of impairment of a financial receivable, the Bank recognises a provision for the relevant financial asset to cover the identified risk.

In line with IFRS rules, the Bank creates portfolios of financial assets that have common characteristics, and for which there is a possibility of their impairment if objective circumstances arise in the relevant market. Based on the amount of individual loans provided, financial asset portfolios are divided into significant and insignificant. Portfolios of significant financial assets include portfolios of loans provided to corporate customers to finance real estate development projects and activities in real estate lease and operations, to finance photovoltaic power plants and new investment projects where the recoverability of a loan is linked to generating future cash flows.

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

The Bank monitors changes in economic conditions on the market and regularly re-assesses portfolio provisions for such portfolios.

Credit exposure, collaterals

EUR '000	2016	2015
Total credit exposure	**303 408**	**263 547**
Value of received collaterals accepted by the Bank	283 134	291 550
of which: immovables	137 437	120 638
cash	18 377	12 743
securities	57 079	75 319
other	70 241	82 850
Secured portion of credit exposure	179 772	169 197
Unsecured portion of credit exposure	123 636	94 350

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

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

The most frequently-used collateral types:

- Project funding: real estate, current and future receivables arising from sale arrangements and other contracts on the sale, or lease of real estate, securities (in particular shares);
- Operational funding: trade receivables;
- Investment funding: clients' movable and immovable assets;
- Credits granted to individuals: real estate, securities, personal guarantees.

Assumptions in estimates of collateral realisable value

The value of collateral is determined as follows:

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

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

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

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

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

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

Clients - transaction rating - 2015	Receivables (EUR '000)	Share (%)
Rating A - very good	17 569	7,73
Rating B - good	22 543	9,92
Rating C - below average	103 095	45,36
Rating D - bad	62 675	27,57
Retail	21 408	9,42
Total	**227 290**	**100,00**

Based on the balances as at 31 December 2016 and 31 December 2015, there are no clients with accredited external ratings in the Bank's loan portfolio.

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

Available-for-sale securities	(EUR '000)	Share (%)
A1	11 386	5,74
A2	19 279	9,71
A3	46 612	23,49
Aa2	2 081	1,05
Ba1	3 092	1,56
Baa1	31 189	15,72
Baa2	31 549	15,90
No rating	53 269	26,83
Total	**198 457**	**100,00**

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

Held-to-maturity securities	(EUR '000)	Share (%)
A2	39 311	50,26
Baa2	22 226	28,42
No rating	16 672	21,32
Total	**78 209**	**100,00**

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

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as overdue or impaired as at 31 December 2015:

Available-for-sale securities	(EUR '000)	Share (%)
A1	5 392	3,06
A2	15 472	8,78
A3	37 435	21,25
Aa2	2 110	1,20
Ba1	3 079	1,75
Baa1	9 359	5,31
Baa2	25 034	14,21
No rating	78 305	44,44
Total	**176 186**	**100,00**

Out of the securities with no Moody's Investors Service rating, securities at fair value of EUR 8 509 thousand have an A- rating with Standard & Poor's.

Securities recognised at fair value through profit or loss	(EUR '000)	Share (%)
A2	273	100,00
Total	**273**	**100,00**

Held-to-maturity securities	(EUR '000)	Share (%)
A1	2 189	1,72
A2	80 633	63,26
Ba2	1 617	1,27
Baa1	6 081	4,77
Baa2	29 336	23,01
No rating	7 612	5,97
Total	**127 468**	**100,00**

Out of the securities with no Moody's Investors Service rating, the securities at amortised cost of EUR 2 550 thousand have a BB rating with Standard & Poor's.

Method of determining transaction ratings of clients
The Bank determines the internal rating of corporate customers on the basis of their financial analysis and non-financial analysis.

The financial analysis is based on an assessment of individual items of clients' assets, liabilities, expenses and revenues, realisation of assets and equity, and the subsequent calculation of basic financial ratios (indebtedness, liquidity, profitability, activity and cash flow). The financial situation of clients is denoted by letters: A (very good), B (good), C (below average), and D (bad).

The non-financial analysis is based on clients' payment discipline, use of banking services, business sector, market position, sales commitments, management level, and overall performance of companies.

The non-financial analysis results in the classification of clients into four business risk classes:
1 (low risk), 2 (adequate risk), 3 (prevailing risk), 4 (high risk)

The client's internal rating – A, B, C or D – results from a combination of the financial analysis and non-financial analysis.

The Bank continuously monitors the financial and non-financial position of clients and regularly updates client ratings on a quarterly basis.

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

As at 31 December 2015, the Bank recognised overdue loan receivables, which were classified as unimpaired in the total amount of EUR 2 274 thousand, of which principal in the amount of EUR 2 059 thousand (of which principal in the amount of EUR 804 thousand overdue by more than 30 days), and interest and charges in the amount of EUR 215 thousand (of which interest and charges in the amount of EUR 75 thousand overdue by more than 30 days).

Restructured assets
Pursuant to internal guidelines, the Bank considered as restructured assets those financial assets where certain risk was identified as a result of which the asset could be impaired or the receivable overdue could be recognised; however, based on the analysis, the Bank opted to change the agreed terms and conditions and did not terminate the credit relationship.

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

In 2015, the Bank mainly extended the maturity of financial assets – loan receivables in the total amount of EUR 29 751 thousand, of which short-term loans amounted to EUR 9 687 thousand and long-term loans amounted to EUR 20 064 thousand.

There were mainly objective reasons that led to the failure to implement the business plan, ie exit from a project on the anticipated deadline, owing to the inability to obtain permits from the relevant authorities (mainly change in the zoning plan or granting of land permit), and owing to on-going processes that did not allow the debtor to sell assets, the proceeds of which had been designated to repay the Bank's loan receivable. In all instances the Bank treated its position so that in the future the Bank is not exposed to higher risks than as at the moment of closing the deal.

As at 31 December 2016, the Bank recorded restructured assets in the amount of EUR 21 848 thousand, for which provisions amounting to EUR 7 611 thousand have been created.

Major credit risk exposures

(a) Concentrations to national economy sectors

EUR '000	2016	2015
Non-banking financial services	38 024	18 646
Manufacturing	36 320	41 740
Of which: photovoltaic power plants	*4 145*	*5 138*
Construction	11 333	10 485
Agriculture and forestry	3 078	4 366
Commercial real estate - cash flow based	23 556	17 696
Commercial real estate - collateral based	64 235	48 099
Commerce and services	58 491	54 304
Other	17 822	22 637
Of which: transport	*9 994*	*7 793*
Individuals	13 748	22 352
Healthcare services	29 902	15 489
Leisure, cultural and sports activities	6 899	7 733
Total	**303 408**	**263 547**

(b) Concentrations to significant groups of related clients

The Bank continuously monitors exposures to the groups of related clients to comply with regulatory limits. The maximum exposure to a debtor or an economically-connected group of clients as defined by regulations is capped at EUR 14 775 thousand owing to the amount of the Bank's capital as at 31 December 2016 (2015: EUR 13 380 thousand).

Maximum credit exposure

EUR '000	2016	2015
Cash and balances with central bank	37 698	30 428
Loans and advances to banks	11 036	9 733
Loans and advances to customers	289 178	248 414
Available-for-sale securities	198 457	176 186
Securities at fair value through profit or loss	-	273
Held-to-maturity securities	78 209	127 468
Investments in subsidiaries	7	7
Tax prepayments	118	90
Other assets	2 800	1 492
Total	**617 503**	**594 091**
Undrawn credit facilities	34 856	28 203
Issued guarantees	5 097	4 634
Total	**39 953**	**32 837**
Total credit risk exposure	**657 456**	**626 928**

42. OPERATIONAL, LEGAL AND OTHER RISKS

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

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

43. FAIR VALUES

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

EUR '000	Carrying amount 31.12.2016	Fair value 31.12.2016	Carrying amount 31.12.2015	Fair value 31.12.2015
Financial assets				
Cash and balances with central banks	37 698	37 698	30 428	30 428
Loans and advances to banks	11 036	11 036	9 733	9 733
Loans and advances to customers	289 178	298 759	248 414	263 356
Available-for-sale securities	198 457	198 457	176 186	176 186
Securities at fair value through profit or loss	-	-	273	273
Held-to-maturity securities	78 209	83 104	127 468	133 680
Investments in subsidiaries	7	7	7	7
Financial liabilites				
Due to banks	96 212	96 327	96 198	96 498
Deposits from customers	439 932	440 764	417 202	418 282
Debt securities issued	6 782	6 843	16 832	16 909

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

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

The method used to determine the fair values of selected financial assets as at 31 December 2015:

EUR '000	Market value **Level 1**	Own model with reference to market rates **Level 2**	Own model without reference to market rates **Level 3**	**Total**
Loans and advances to customers	-	263 356	-	**263 356**
Available-for-sale securities	145 827	10 079	20 280	**176 186**
Securities at fair value through profit or loss	273	-	-	**273**
Held-to-maturity securities	133 680	-	-	**133 680**
Investments in subsidiaries	-	-	7	**7**

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

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

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

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

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

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

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

Investments in subsidiaries
Net value of assets approximates fair value.

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

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

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

44. SIGNIFICANT SUBSEQUENT EVENTS

As at the date of preparation of the financial statements, there have been no significant events that would require a material adjustment to the amounts or disclosures in the financial statements as at 31 December 2016.

45. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were signed and authorised by the Board of Directors on 13 March 2017.

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

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